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The Housing Crisis

The Mirage of New Towns
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Why We Have Not Built More Houses
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A Backward Look
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Quotas at Yale

An Exchange of Letters
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CONTENTS

Housing: Can We Do Better?		
I. The Mirage of New Towns	*William Alonso*	3
II. Housing in Perspective	*Morton Schussheim*	18
III. Toward a National Housing Policy	*Irving H. Welfeld*	31
The Black Quota at Yale Law School An Exchange of Letters	*Macklin Fleming and Louis Pollak*	44
Quo Warranto?—Notes on the Governance of Universities in the 1970's	*Daniel Bell*	53
The Economic Common Sense of Pollution	*Larry E. Ruff*	69
The Economics of the 1960's: A Look Backward	*Otto Eckstein*	86
How Shall We Finance Higher Education?	*Michael Clurman*	98
Proposals and Ideas		
Black Gold and Black Capitalism	*Anthony H. Pascal*	111
An Alternative to the Nixon Maintenance Plan	*Richard Zeckhauser and Peter Schuck*	120
Current Reading		131
Contributors		17

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HOUSING—CAN WE DO BETTER? I

The mirage of new towns

WILLIAM ALONSO

CALLING for "new towns" has long been a favorite activity of architects and architectural critics, but in recent years just about everyone seems to have taken up the cry. The list of such advocates now includes giant corporations, real estate developers, the American Institute of Planners, the mass media, the former President, the Urban Affairs Council of the current President, several state legislatures, various cabinet members, congressmen, senators, governors, the National Association of Counties, the National League of Cities, the United States Conference of Mayors, and Urban America.

The reasons for this surge of interest in new towns are elusive. Some of the advocacy is probably self-serving, as in the cases of congressmen or federal bureaucrats seeking to maintain diminishing constituencies, self-aggrandizing professional groups, and of business firms in pursuit of new markets. For many, glimmering images of simpler, future Camelots combine the American nostalgia for the small town with a desire to escape from the biting reality of our complex urban problems. But mostly the idea of new towns has

The following three articles continue the discussion begun by James L. Sundquist in his essay—which has since been widely reprinted—"Where Shall They Live?" in our last issue—Eds.

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some magic that fires the imagination, stirring some Promethean impulse to create a better place and way of life, a calm and healthy community of crystalline completeness.

These romantic associations make it difficult to analyze the new towns strategy as a rational policy. When a cabinet member speaks of "avoiding chaos," "organic balance," "creative possibilities," "building poems," "communities of tomorrow," and the like, he has adopted the vague rhetoric of architectural and utopian writers. This rhetoric abounds in code words. For instance, one of the most frequently stated reasons for new towns is that they will be *planned* (a term in urban matters that is acceptable to both the political right and left). But in itself, the fact that something is to be planned is of interest only to the professionals who get the work and to later chroniclers. To most people, such planning is merely an input, and the important question is one of output: what does such planning do to what the new town will do? Some other code words are *balanced, exciting, variety, living environment, choice, human scale.* To make sense of the new towns concept,[1] it is necessary to translate its advocates' rhetoric into clear language, and this in turn requires one to distinguish between purely instrumental objectives and their intended ultimate purposes.

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[1]A comment on nomenclature may be helpful. Some have tried to draw a distinction between *new town* and *new community,* but today the terms are used almost interchangeably. *New community* has a slightly wider meaning and is often applied to subdivisions which would not be called *new towns* by anyone. On the other hand, some rebuilding within existing cities is being called "new towns in town." I shall reserve the terms *new towns* and *new community* to developments that are built at some distance from existing urban areas.

New towns may be either *independent* if they provide for the employment of their residents, or *satellite* if there is to be substantial commuting to existing centers. Most of the well-known new towns in this decade (Reston and Columbia) and of the recent past (Radburn or Forest Hills) have been satellites; but, historically, independent new towns have been quite numerous. In a sense, of course, almost every American city was an independent new town at the time of its founding. But the 19th century saw the intentional creation of a great many company towns (Lawrence, Lowell, Pullman), utopian and religious new settlements, and towns developed by the railroads as they spanned the continent. Present day independent new towns are most frequently resort or retirement towns, although there are occasional instances of cities created to provide housing for workers in large isolated projects (Boulder City and the atomic energy towns of Oak Ridge and Los Alamos are examples). My discussion will include both types.

Finally, there are major differences between the new town and the concept of growth center. First, new town proposals are for newly built settlements, while growth centers are usually existing settlements which are to be expanded to the point of self-sustaining growth. Second, new town proposals often stress self-containment as a labor market, while growth center proposals often stress the role of providing jobs for those living in the surrounding region. Third and most important, new towns proposals are based on the idea of steering growth away from urban areas which are regarded as too big, while growth centers are viewed as steering growth toward underemployed populations or some unexploited resources. Although the two ideas somewhat complement each other, I shall concern myself with only new towns.

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The discussion that follows will focus on proposed policies of directing to new towns only a substantial portion of our future urban growth rather than all. There are two reasons for this. The first is that, with the exceptions of some journalists, nobody seriously proposes to channel *all* further growth to new towns. Second, it is inconceivable that such a policy would work. The British experience is instructive here. As of December 1967, after 20 years of sustained effort, the population of new towns had grown by only 554,373, or only 1 per cent of the national population. During 1967, the population of the new towns grew by 34,577, which is less than 10 per cent of the yearly British population growth.

What are new towns for? I have discovered about two dozen principal objectives, some with several variants, and in the pages that follow, I will examine critically the main purposes new towns advocates have in mind. But let me here summarize briefly my principal conclusions. First, there is little force to the arguments of those who urge a major national commitment of effort and resources to a program for directing a substantial portion of our urbanization into new towns. On the other hand, there may be some sense in the limited use of new towns for the testing and development of technological, physical, and institutional innovations which might be applicable to the expansion and rebuilding of existing cities.

"Where shall they live?"

It is common to argue that present urban areas cannot cope with the expected growth of urban population. A recent statement of this type was made by the National Committee on Urban Growth Policy. It predicted that from now until the year 2000 United States urban population will grow by 100 million, and recommended that to help accommodate this growth, we build 100 new towns of at least 100,000 population, and 10 new cities of at least 1 million population. The very roundness of these figures suggests their tentativeness and leads one to wonder how the proposals might have differed if men had six fingers on each hand. Nonetheless, even accepting these targets, *the year 2000 would see only 7 per cent of the 300 million population residing in these new settlements,* with 80 per cent of the foreseen growth taking place in existing areas. If the hoped-for replacement of one-third of the existing dwellings is achieved, *almost 90 per cent of new housing would be produced in existing urban areas.* Thus, as radical as the National Committee's proposal seems, it would affect only a small part of our population and an even smaller part of our housing production. A program that marginal in its effect cannot stand very high on the list of national priorities.

Further, given the uncertain state of our knowledge, we cannot say that existing urban centers can absorb 80 million persons but

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cannot absorb 100 million. *If each of our smallest 200 metropolitan areas took in a half million persons, we could hold the 100 million without any of these areas exceeding 2½ million.* The National Committee's argument is further weakened when we examine the growth assumption: our national rate of population growth has declined steadily for the past 15 years and now stands at 1 per cent. At this rate, by the year 2000 the increase will be only 75 million—or 5 million less than the growth that the Commission allocates *existing* areas.

The argument from efficiency

Less crude than the lack-of-room arguments are those holding that further growth of large urban areas is inefficient. In brief, such arguments state that urban costs per capita rise with increasing urban size, or that marginal costs increase with population. According to this line of reasoning, urban areas grow beyond their "least cost" point because arriving people or firms are not discriminated against but are rather placed on the same footing as everyone else. They pay *average costs* (in taxes, etc.) and these are lower than the *marginal* costs that their arrival imposes. A considerable literature addresses itself to the shape of this cost curve and the location of its bottom, but the question has not been settled of whether costs rise disproportionately to population for a given level of services.

Whether they do or not, when the city is compared to a firm, and the concept of "efficiency" is introduced, an analysis based only on costs is incomplete. The objective of any unit of population is to make money, not to save it. In the case of a city, the point of minimum costs is relevant only if we assume constant product per inhabitant. It appears, however, that product and income per inhabitant rise with increasing population faster than costs, even taking into account differences in cost of living. *Efficiency arguments for diverting growth away from existing urban areas depend upon the assumption that new towns will enjoy a greater difference between marginal product and marginal cost, than is to be found in our cities. In fact, the opposite seems to be the case if we judge by existing cities that are comparable in size to proposed new towns.*

Migratory way-stations

It is often suggested that the new towns would intercept migrants from the rural areas on their way to large cities and would thereby give our large metropolitan areas time to absorb their earlier migrants. This image of a flood of rural immigrants, however, is quite out of date. Migration of farm population to metropolitan areas has dropped to an insignificant trickle, largely because there are so few

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farmers left; and migration of any sort plays a decreasing part in overall metropolitan growth. Of the 10.9 per cent growth of metropolitan areas during the 1960-66 period, only 22.6 per cent came from immigration as compared to 35 per cent during the 1950-60 period. Moreover, most of the domestic migration came from smaller urban places rather than from farms. Beyond this, the picture is confused. For example, compare the yearly rate of 492,000 migration into metropolitan areas with the rate of 138,000 migration out of nonmetropolitan areas and the rate of 377,000 civilian immigration *into this country* during the 1960-66 period. These figures suggest that nearly *three-fourths of the migratory increase into metropolitan areas is international in origin, and that only 6 per cent of metropolitan growth comes from domestic migratory flows.*

Many metropolitan areas, in fact, are losing population through out-migration. The fastest growing metropolitan areas, and the strongest magnets to migrants in proportion to their size, are those between 200,000 and 2 million, while those over 2 million were attracting only 0.2 migrants per hundred population per year, and those under 200,000 had net out-migration. Nine areas accounted for 81 per cent of all net in-migration, leaving an average of fewer than 500 migrants per year entering each of the others. To put it another way, *28 metropolitan areas in the south, southwest, mountain states, and Pacific coast accounted for 99 per cent of the net in-migration.* Please note: neither New York, nor Philadelphia, nor Chicago is among these twenty-eight.

Black migration to metropolitan areas during the 1960-66 period averaged 145,000 yearly—about 30 per cent of all net migration—down from a 172,000 yearly rate from 1950-60. From 1960-66, such migration accounted for some 34 per cent of the growth of black metropolitan population—*but only 31 per cent of these black migrants were from farms.* The black population is already far more urbanized than the white, and the shifting proportions of blacks among urban areas of diverse sizes indicates that, on the whole, they are moving not from farm to city but upward along the urban-size hierarchy.

Is this flow of migrants so large that we should reorganize our urban system to gain a breathing spell? It would appear not. If we exclude the 28 metropolitan areas in the developing and urbanizing crescent from the south to the Pacific states—and in these areas there is far less talk of an "urban crisis" than elsewhere—the other metropolises are trading either already-urban migrants with each other or are swapping earlier migrants for new immigrants. New black migration from the farms is relatively small and declining, and the other black migration is primarily from small urban places to larger, urbanized areas.

Second, if new towns were developed, would they attract these

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migrants? Again, it would appear not. New towns or even new cities would of necessity be small, at least in the beginning, and the pattern of migration, especially for blacks, is away from smaller urban places toward bigger ones. Of course it might be that new towns of extraordinary amenity, offering strong inducements, and having a credible guarantee of future size might succeed in attracting people but there is no assurance that these arrivals would be the same migrants that were supposed to be intercepted. Further it may be that the cost of the inducements to effect such a geographic shift might be better used directly for the welfare and acculturation of the intended populations.

Third, if the new towns can attract population, would they do so in time? From the present state of vague discussions and the experience of such programs as urban renewal, one may estimate that ten years from now there may be some small beginnings on the ground, and that it would be another decade before the new towns would involve enough people to affect significantly the migration flows to metropolitan areas. Of course, a determined federal government could act much faster, breaking ground within a year and promoting fast growth by hothouse techniques. But this would make extremely unlikely those elements of amenity, detailed programming, technical and institutional innovation, private-public cooperation, and so forth, that are integral to most new town proposals. The dilemma is that quickly-developed towns would be new but not innovative, and would be a poor magnet for migrants if we are to judge by existing cities of comparable size. On the other hand, innovative new towns would have a long gestation.

A variant of the objective of intercepting migrants for the relief of urbanized areas is the notion that industrial new towns, if established in rural or other areas of declining employment in primary production, could provide enough good jobs to ensure people a permanent alternative to out-migration. This idea was advanced by the Department of Agriculture during the Johnson years under the label "urban-rural balance." The proposals included new towns, "growth centers" based on existing communities, and "new communities" that would encompass several counties in ways which were not clear. Although these proposals were not very specific, they apparently called for new towns that would be quite small, just large enough to absorb the district's surplus population.

It is true that standardized process manufacturing has been leaving the larger metropolitan areas and moving to smaller metropolitan areas, but it is doubtful that enough plants would locate in rural surroundings or in small towns for such a policy to be effective. Also, because the size of a plant typically increases with decreasing urban size, this suggested pattern would lead to a very large number of one company new towns under absentee ownership. Do we want this?

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More important, it appears that the rate of out-migration does not vary with local hardship. Migrants leave at a steady rate regardless of local conditions, although such local conditions do affect the rate of *in*-migration. These facts have important policy implications. They suggest that population maintenance and jobs-to-people programs, if successful, may bring new people to depressed areas (which usually have a labor surplus) rather than retain the original residents who are leaving. It is well known that those who leave these areas are younger and better educated than those who stay behind, so that their departure weakens the local economy out of proportion to their number. Unfortunately, it appears that migrants entering depressed areas are more like the stayers than the movers (older, less educated, and less skilled), so that the newcomers do not replace the qualities lost through out-migration.

Preserving the countryside

It is sometimes suggested that new towns are needed to preserve agricultural land. This argument originated in Britain. But in this country, where historically *we have been abandoning agricultural land,* the argument lacks force. To accommodate 100 million people at suburban densities (with homes, factories, and so forth) would take about 14 million acres. This makes up less than 1 per cent of the United States mainland territory, less than 2 per cent of the present area in forests, and less than 5 per cent of the area now in crops. It is also only about one-half *the decrease* in planted crop acreage that occurred during the 1959-64 period. The territory to be occupied by urban growth, in short, is relatively small.

Beyond this one must question whether new towns would take up less space. It is hard to believe that they would. Densities are likely to be low, as the American preference for large lots meets low land prices, and most descriptions of new towns stress the land-consuming amenities that will be found there (such as parks, playing fields and artificial lakes). Some designers advocate very high density towns but it is doubtful that these would prove attractive. Some point out that growth at the margin of existing urban areas overruns some of the most valuable and productive agricultural land; but the value and productivity of this land derives not from its intrinsic fertility but from the more intensive use of capital, labor, and other inputs on land valued for its adjacency to urban markets. Growth of existing areas would merely slide these rings outward.

Another conservation-of-land argument is based on the sprawl of marginal urban growth. Sprawl is an ill-defined word, referring to a condition characterized by very large lots, or by a ribbon development along major highways, or by the leap-frogging of clustered

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development that results from speculation. Thus, by thin development or by leaving gaps, sprawl covers more land than continuous compact development. I am unaware of studies showing the extent to which bypassed land is withdrawn from agricultural production; the one study I know of that attempts an economic analysis of how sprawl functions concludes that it may be an effective way of withholding land from premature development at low densities.[2] This depends, of course, on whether growth eventually backtracks to fill in the gaps at higher densities when demand has ripened. My impression is that this does occur. But even if sprawl is dysfunctional it would seem that the effects of redirecting a fraction of urban growth to new towns would be correspondingly small.

A frequent argument for new towns is that sprawl is expensive because of additional utility and street costs. Although the proposition is plausible, studies show these costs to be quite insensitive to alternative forms of development. Even if these costs did vary, they are so small that their marginal changes with urban form would not justify much of anything. For instance, the 1966 per capita expenditures of local governments were $31 for utilities (including debt maintenance and transit) and $22 for streets.

Some economic arguments

It is often suggested that new towns will stimulate the economy, presumably by their contribution to demand. Such an argument is often advanced by the same people who promise that new towns will be cheaper to develop and to run than the corresponding extension of existing urban areas. Such inconsistency aside, if new towns are to be used to stimulate the economy during recessions, their rate of development must conversely be slowed when the economy is working at full capacity. But new towns could not very well be used as a balance wheel for the cyclical control of the economy. Their lead times for decisions and action are far too long, and the success of various aspects of their development depends upon keeping to a time schedule. The heavy front-end investment reassured by new towns presents critical cash flow problems for the private developer, and a slowdown would be disastrous for him. From the public point of view, a slowdown would be extremely costly in terms of the opportunity costs of idle capital.

Most new town proposals stress that they will be as self-contained as possible, providing housing, jobs, schools, and shops for their residents, even if the proposals are for new towns on the edge of ex-

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[2]R. O. Harvey and W. A. V. Clark, "The Nature and Economics of Urban Sprawl," *Land Economics* (February, 1965). See also, J. Lessinger, "The Case for Scatteration," *Journal of the American Institute of Planners* (August, 1962).

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isting cities or in central city redevelopment projects. The purpose of this closure, often called "balance," is not altogether clear. It seems to stem in part from a desire to produce a sense of community that combats alienation—this will be discussed later—and in part from the intention of reducing commuting costs and congestion by reducing the distances involved. Two questions may be raised in this respect: (1) Does this make economic sense? and (2) Would it work?

As mentioned earlier, the cost-minimizing strategy makes sense only if productivity is fixed; in fact, income and most other measures of material welfare rise strongly with urban size. This is not the place to present a lengthy discussion of the reasons for this rise. They have to do with adaptability and innovative power and, in general, with the advantages of high *connectivity* for actual and potential interaction within a large system. In these terms, seeking closure at a small scale may economize on certain inputs (such as those of commuting) but result in lower per capita production (and lower disposable income after accounting for commuting costs) as well as the risks of instability and low adaptability which affect small cities. In small cities, a declining firm can be a local disaster, new firms are less likely to develop because of the sparseness of *linkages*, a dismissed worker has fewer chances for reemployment, a boy has fewer career opportunities, a woman fewer choices for shopping, and so on. In short, trying to save on transport costs may be penny wise and pound foolish.

But could such self-contained new towns be achieved? It seems to be quite hard. Several much admired European new towns, such as Tapiola, have about as many jobs as they have workers; but, in fact, residents work outside and outsider commute to work inside. The British experience demonstrates how difficult it is to ensure labor market closure. British authorities have had extraordinary power since, in the face of a crushing housing shortage, they made the award of housing in new towns conditional on local employment and vice versa. The British new towns still show about the same number of jobs as workers but, after some years, 7.3 workers enter and leave the town in their daily trip to work for every 10 who live and work in the same new town.

People seem generally unwilling to constrain themselves to a localized and therefore small range of choices; and when feasible, they avail themselves of outside opportunities. It is extremely doubtful that new towns that are near metropolitan or other urban areas could maintain self-contained labor markets, with their residents making only occasional trips to the larger cities for specific services and facilities. Yet, if the new towns are not independent or self-contained, the space that intervenes between them and other opportunities can only lengthen travel and make it more costly. Thus a

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new town pattern of development might have an effect opposite from that intended, lengthening travel—except for those new towns in remote areas which are free from temptation. Yet virtually all our national territory, with the exception of some of our great deserts, is within commuting range of some existing urban center.

Health, Justice, Opportunity

One of the most persistently advanced purposes of the new towns might be classified under mental health. According to this view, big cities impose role-segmented contacts on people and keep them from knowing each other as whole persons. Due to the scale and impersonality of the city, people cannot understand the forces that affect their destinies and consequently experience alienation and *anomie*. New towns, by contrast, will be smaller and simpler; they will provide a single locus for home, school, job, shops, recreation, and civic activities; and thus they will afford deep and enduring relationships as well as a comprehensible environment in which the individual may participate and which he may, to a degree, control.

Millions of words by thousands of writers dispute this dismal picture of life in the big city and the correlative idealization of the small town. Jane Jacobs' picture of ethnic life in the big city makes even the most glowing description of new towns reminiscent of the atmosphere among strangers in an English train compartment. Studies by Gans, Young and Willmott, Fried, White, and others differ considerably from the traditional equation of the big city with alienation. On the other side, a far less flattering picture of life in the small city is drawn by Sinclair Lewis, Thomas Wolfe, John O'Hara, Warner, Kornhauser, the Lynds, and others. In sum, the traditional dichotomy between the alienating metropolis and the cohesive small city is a gross oversimplification, and it would appear that people can lead alienated or full lives in either place.

New towns present a particular difficulty to those who stress the importance of participation in their planning. The great problem with such participation is that several years of planning and development must take place before a new town has any residents. Except in rare cases where a specific group of families is to be transplanted to a new town, there appears to be no feasible mode of participation that would amount to more than a consumer survey. In this respect, new towns are rather like space ships. There must be a detailed plan for the vehicle and its course before the launching; and once under way, travelers can make only small choices of their own. This accounts for some of the tensions that commonly occurs between residents and developers in some of the new towns now under way. The developers struggle to keep control of the nature and timing of the development according to their physical and financial

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plans, while the residents struggle to achieve the measure of local autonomy which is normal for a city or town.

Some writers associate physical and mental health directly with physical density of population rather than with life style. This argument is based on concepts of territoriality and personal space and derives from studies of the unfortunate effects of high density on rats, fish, lemmings, and large ungulates. But there has been no finding of comparable effects in the case of human beings. Further, this concern about the noxious effects of high densities is inconsistent with the concern about low densities created by sprawl.

It is sometimes suggested that new towns will be healthier in other ways. Walking or bicycling to work is salutary, the more so since there would be less automobile exhaust in the air. (One enthusiastic author includes the reduction of cancer among his new towns objectives.) Further, the small scale of new towns and their relative isolation would ease the dispersion of pollution and wastes. However, a new town policy would affect pollution levels for the vast majority only by the marginal amount accounted for by the population diverted from metropolitan areas, where any solution would continue to require some form of control over pollution sources. It is far simpler to take pollution from the people than to take the people away from pollution.

"Social balance" is a traditional objective of new town theorists, who argue that new towns should contain substantial social, economic, and ethnic diversity. In many cases it is proposed that such integration take place within districts of the town as well as in the town as a whole. The prospects for such a policy are not encouraging. Indeed, many early new towns made quite purposeful exclusions on economic and ethnic grounds. And some recent studies suggest that many people are attracted to new towns in part precisely by promises of "planned growth" and high levels of amenity which they interpret as code words for social exclusion. At the extreme, some of the "new communities" in major cities are advertising guards, fences, gate check points, and other security measures. Recent studies of the British new towns, which were supposed to mix social classes, indicate that wealthier classes have tended to leave the towns and that residential areas are now differentiating by class.

There is also an economic barrier to such social balance. At present we cannot produce new housing for people below middle class income levels without heavy subsidies. In existing cities, the less affluent live in housing made cheap by age and the filtering process of the market. If new towns lack a stock of older housing, "social balance" would require enormous subsidies. They are not likely to be forthcoming because the urban majority will see no reason why new towns, as against old cities, should get them.

One argument for new ones which is now in great favor is that

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they will increase the range of choice of living environments. It is far from clear, however, in what ways new towns would differ from existing cities of equivalent size. Architectural and other physical features seem to be the principal probable differences, but there are also suggestions for such diverse sorts of new towns as a black town (Soul City, proposed by Floyd McKissick), a technological utopia (the Minnesota Experimental City), hippie communes, maximum security developments, and resort towns. Although those who want to live in such special settlements should be able to do so, the provision of such exotic residential opportunities for various minorities does not appear to constitute an adequate basis for a large scale national new towns program. It makes no economic sense, and it is a political absurdity.

Considerations of land use are often adduced in behalf of new towns. One of these is the difficulty of assembling large tracts ot land on the edge of metropolitan areas because of their fractioned ownership and the game-like complexities of speculation. Large tracts may permit economies of scale in construction and allow certain interesting design features. Hence, urbanization should be easier where large pieces of land can be put together, presumably at some distance from existing settlements. But if there are such great advantages to large development tracts, much could be done to make land available at the margin of existing cities through institutional instruments such as land banks, property and capital gains taxes, and public intervention through policy powers and eminent domain. Choosing distant locations for the sake of land assembly, is a rather roundabout way of getting the job done. True, it isn't easy to assemble large tracts. But it isn't easy to build new towns, either.

The companion argument is based on land prices. Suburban land prices have risen sharply for many years, and it is suggested that development on cheap, distant land would both provide land at less cost to new town residents and discourage speculators at the edges of existing cities. The lower price for new town residents would certainly facilitate the development of new towns. But would it justify? The price of urban land is based primarily on the value of its location by reason of its accessibility. Cheap land will probably be inconvenient land, and might prove to be very expensive land by the time you get through providing transportation, utilities, etc.

Finding alternative environments

Perhaps the most deep-seated reason for wanting new towns lies in images of their physical form. The new towns literature usually offers photographs of European new towns where the sun always shines. Nevertheless, the specifics of the alternative environments provided by new towns are elusive. There is no dominant school of

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thought: some plans feature cluster housing and grade separation of different types of traffic; others are based on mixing various types of buildings and land uses which are usually separated; still others emphasize outdoor facilities; and a few plans envision towns of medieval densities, or domes covering the entire town for climate control.

Yet the technological alternatives foreseen for new towns are generally minor or undeveloped. What is persuasive is the notion that new towns would be more beautiful and sensually satisfying than most of our cities and suburbs. No one can avoid being struck by the aesthetic poverty of most of our urban environments. Other places and other times, with only a fraction of our resources, have produced districts and whole cities whose extraordinary beauty and efficiency contribute greatly to the pleasure of their inhabitants.

Two causes for the ugliness of urban America suggest themselves. The first is that we lack feasible models of superior physical environments. Most of the physical design ideas proposed for new towns *could* apply to residential and commercial land uses and *could* be incorporated into the extension and rebuilding of existing urban areas. Here and there, this is actually occurring. But there is little doubt that new towns might have a powerful demonstration effect and assist greatly in the diffusion of design innovation.

The second reason for environmental drabness is that urban beauty is a public good and, as such, is difficult to produce through a market economy. Production of beauty may conflict with other uses of the urban plant. Moreover, beauty is not only not measurable but also highly problematic: what is beautiful to some is ugly to others. To a large extent, new towns would substitute developers' control for the market, and permit expert opinion to determine what is beautiful and how much to pay for it. In this respect, alas, they would not be likely to help existing cities frame institutional mechanisms to produce urban beauty. Our cities are not governed by appointed experts but by elected politicians and the forces of the market.

One of the most traditional arguments for new towns is that, being small, they would give residents ready access to open land. By contrast, a resident of a large metropolitan area may have a long ride to get out of the urbanized area if he has a car, and he may find it hard to do that if he is poor and without a car. Yet this distance from open land can also be psychological rather than geographical. A small square within the city can be as powerful an antidote to claustrophobia as farmland on the city's edge. Although the restoring powers of contact with nature are an important motif in our culture, a question must be raised of the meaning and functions of different types of open land. An urban park, a regional park, agricultural fields, and untrammeled nature may all be colored green on a land-use map, but they are quite different from one another

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as potential places for recreation and contact with nature. One would have to attach an extraordinary importance to immediate access to *agricultural* land to advocate a new towns policy on this basis, which seems to point instead toward expanding urban parks and facilitating access to them.

Conclusion

On the whole, a national policy of settling millions of people in new towns is not likely to succeed and would not significantly advance the national welfare if it could be done. The principal flaw in new town proposals is their underestimation of the integration of modern society, which is expressed in the complex reticulation of functional areas and the counterpoint of centers and subcenters which constitute a metropolis. This complexity allows specialization and complementarity; its fluidity makes it capable of producing innovations and accepting change; and its ambiguities permit it to encompass the strains and inconsistencies which inevitably accompany change. We may be vexed at our slow response to problems like pollution, segregation, and ugliness; but new towns, with their stress on diverse "balances," seem to fall into a deterministic fallacy which, under the guise of increasing choice, would actually reduce it in nearly-closed subsystems of too small a scale. It is curious that an idea rooted in humanism should assume such materialistic and deterministic dimensions, and end up slighting the importance of freedom, communication, and interaction.

One notable kind of myopia in new town proposals is to regard the system of existing metropolises as one that grows only by proportional expansion while ignoring the continuous processes which create urban novae. Washington, Dallas, Los Angeles, Chicago, and others have risen in the last century to join the constellation of large urban areas, absorbing in their growth large shares of our population than those proposed for new towns and cities. This crucial aspect of national urbanization differs from the new towns proposals in that *the growth occurred because it wanted to be there and not because it wanted to get away from something.*

A new towns policy that aims at housing a substantial portion of the population makes little sense. But there is much to be said for a new towns policy that would create new towns to test or exhibit innovations which might be adaptable by existing cities. Such experiments in new towns, should, of course, be carefully designed to fulfill certain requirements. The first is that the findings be transferable to other areas. The second is that the experiment must be a reliable indicator of the probable success or failure of further applications of the innovation. The third is that the findings be available fairly promptly. The value of the expected findings must be dis-

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counted with respect to the time of their availability. In addition, there must be provision for objective reportage and evaluation, and only those experiments should be undertaken where there is the political will and means to learn from the findings. Most of the value of today's experiments is vitiated by the hyperbole and puffery of most new town advocacy, which effectively conceals what we might learn from our experience thus far.

There is much to be done to improve our cities, and perhaps some experiments with new towns would help. I say only that, even if new towns turned out to be wonderful places, they would still be almost powerless to affect our present urban problems; and I fear that, as sirens of utopia, they might distract us from our proper work.

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HOUSING—CAN WE DO BETTER? II

Housing in perspective

MORTON J. SCHUSSHEIM

By common observation and periodic declaration of the Congress, housing is one of the most persistent problems of the American people. Three groups in the population are particularly affected.

First, there are 20 million persons (6 million households) who occupy shelter that falls below the standards of decency in our society. Some live in places without toilets or share them with other families; some have no running water in the house; some live in buildings or shacks that are beyond repair. With few exceptions, the occupants of these substandard dwellings are among the very poor of the nation—the city poor and the rural poor. Many are disabled or helpless people—children without fathers, migrant farm workers, in-migrants to cities, physically handicapped, chronically ill, and elderly persons.

Second, there are perhaps 60 million persons (about 20 million households) who live in obsolescent houses in aging city neighborhoods and towns. The dwellings may have plumbing and the roofs may not leak, but they constitute neighborhoods that fall far below the image of the American way of life. Schools are old-fashioned, play space is scarce, and streets are cluttered with traffic and parked cars. European visitors express surprise that the United States has such extensive "gray areas" in its cities and towns. The houses in these predepression districts take many forms: row houses of brick, wooden two- and three-deckers, walkup flats, and small frame houses on individual lots. But they have a common function: to provide

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quarters for millions of families with limited means and limited choices: the semiskilled worker with take home pay of $110 a week, the retired couple on social security and a small pension totaling $250 a month, and others in the moderate and lower income classes.

Third, there are the gathering cohorts of tomorrow, by the year 2000 adding 100 million people (35 million households) to our present population of 200 million. These future families will be insistent claimants for housing and all that goes with it—water, waste disposal facilities, roads, schools, and recreation areas.

Seven presidents (including Herbert Hoover), 19 Congresses (including Truman's "do nothing" 80th), and uncounted officials and experts have done their bit to meet the housing problems. In 1968, Congress set a 10-year production target of 26 million houses, with 6 million earmarked for poor and moderate income families. To achieve this and related goals, the Department of Housing and Urban Development has more than 70 programs, and additional aid is available through other federal departments and agencies. In 1969, the first year of the 10-year target period, housing starts were below 1.5 million, a far cry from the 2 million mark hoped for by the target setters.[1] Within the totals, new or rehabilitated dwellings directly available to low and moderate income families picked up only modestly; the process of blight continued to wear down the older districts; and the already large backlogs in supporting public facilities, such as water lines, sewers, and schools, grew even bigger.

Four approaches

Will performance in the 1970's be better? Those familiar with housing processes in the United States tend to agree that the prospects are not good. But there the consensus ends. There are at least four different schools of thought on the underlying causes of the housing problem and prescriptions for dealing with it.

First, the shortage of housing, especially for the poor and moderate income families, is due to a recurrent drought in mortgage credit. In inflationary periods especially, housing cannot compete effectively for capital funds. With ample financing, and rental supplements or similar direct subsidies where necessary, everybody can be decently housed. This is the position of many housing functionaries in government, the home-building industry, and allied industry groups.

Second, housing costs are too high and must be brought down by

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[1]This estimate is based upon the Census Bureau's definition of housing starts, which do not include mobile homes. More than 400,000 mobile homes were sold in 1969, many to families of modest income. If one includes these homes, then we did considerably better than is generally believed—were, indeed, almost on target. But, even though most "mobile homes" are in fact immobile, there is still some question as to how many meet modern standards.

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modern mass production techniques. Rationalization of the entire building process is necessary, from land assemblage to marketing of the finished units (and even maintenance). The present participants in the provision of housing must be replaced by large-scale producers such as automobile makers or aerospace industry. The present secretary of the Department of Housing and Urban Development, George Romney, is the leading proponent of this approach and he is supported by research and development technicians recruited from the space agency and large corporations.

Third, people live in bad housing because they are poor and disadvantaged and/or are the victims of racial discrimination. Public policy should stress, not housing programs, but job training, education, income maintenance, and the elimination of artificial barriers to mobility. Thus strengthened, poor families would be able to secure good housing in the private market as other higher income consumers do. Sociologist Nathan Glazer, among others, takes this position.

Fourth, slums and ghettos result from the inability of disorganized and politically impotent segments of the population to control their own destiny. Many institutions systematically exclude or neglect the poor and the blacks—schools and colleges, corporations and local governments. These people must seek control of their own neighborhoods, the schools, businesses, real estate, and ultimately city hall. Good housing is secondary to neighborhood control but can be achieved when the absentee landlords are gone and the neighborhood people are in charge. This is a view made familiar by black activists and white academics such as Richard Cloward and Frances Piven.

A shortage of money

Housing experts and homebuilders will readily understand the first point of view. Inside and outside of government, year by year, they have built up the policy that flows from it. At the heart of this approach is "captive funds" for housing. Institutions have been developed with the primary mission of channeling private savings into residential mortgages. The principal group in the postwar years are the savings and loan associations. This industry has grown phenomenally, from home mortgage holdings of $7 billion in 1946 to over $110 billion in 1968. But the net inflows of savings to the savings & loan associations go up and down with movements of the national economy ($11 billion in 1963, $3.6 billion in 1966, $10.7 billion in 1968); and housing starts swing up and down with these monetary gyrations.

Moreover, the funds available through private savings institutions have never been enough—certainly not for the construction of housing for moderate and low income groups. Thus, various attempts have been made to channel government-borrowed funds into housing, the largest if not massive effort being the sale of tax-exempt

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Local Housing Authority bonds to the public. Since 1937, some 750,000 housing units have been built through the federal low rent public housing program. This is no mean achievement in the face of general indifference and specific resistance to housing projects for the poor. Yet its contribution must be measured in terms of need —the 5 or 6 million households who would qualify today in terms of income for low rent housing—and also compared with the production of 35 million privately-owned units in the same three decades.

During the Kennedy and Johnson years, the number of programs to increase housing for moderate and low income families multiplied. The most important in terms of potential volume are the interest-subsidies authorized in 1968 (Sections 235 and 236) under which families may receive loans at interest rates down to 1 per cent. Such subsidies can reach down to families of $3,500 income but not much lower. Congress appears more willing to appropriate funds for these two programs than for some others, and with good luck the annual combined volume may rise to 250-300,000 housing units in the next year or two. This will leave at least 300,000 units a year to be provided through other programs, particularly public housing and rent supplements, if the targeted 600,000 a year is to be attained. These two programs, if adequately financed, *could* bring housing within the means of the poverty family. But it is important to note that Congress has been more receptive to appropriating funds for housing programs that help the lower middle class ($3,500-to-$7,000) rather than the rock bottom poor.

A shortage of land

Another difficulty that plagues the housers is the lack of suitable sites. Land for the construction of housing for low-income families is hard to find for several reasons—fiscal considerations, social status, racial discrimination, and price. With central cities largely built up, it is in suburban communities where one must look for vacant land for housing development. Such localities rely heavily upon property taxes for their revenues. The taxes collected from inexpensive houses tend to fall below the costs of public services to the occupants, especially if they are families with school children. For example, a $15,000 house may be assessed at $10,000 with a tax rate of $40 per thousand. This yields the locality $400 a year in property taxes. A family with two children occupying such a house may require public expenditures of $1,200 or more per year—$500 for each school child plus $200 for other services such as police protection, refuse collection, and street maintenance. The rational thing for the town to do is to exclude housing for such families. And local zoning boards and town councils have shown great resourcefulness in doing just that. Large-lot zoning is widely practiced as a means of per-

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mitting only higher-priced houses and higher-income residents into the locality.

The desire to maintain the character of the community is another factor in this reluctance to see land used for lower income housing. In part it is an aesthetic resistance to construction of identical houses on treeless lots or to the loss of parkland; in part, it is opposition to having lower class families as neighbors. Whatever the blend of attitudes, builders are often stymied by the established residents when they seek sites for lower income housing.

The resistance hardens impenetrably when it becomes known that Negro families may occupy some of the new houses. Some towns have even chosen to acquire proposed housing sites for parks—as in Deerfield, Illinois—when faced with the prospect of black residents. Deerfield became a *cause célèbre* and brought shame on the community, but only because the local officials failed to anticipate the possibility of mixed racial occupancy and permitted the developers to take steps to acquire the land. Most localities have—and most builders accept—unwritten rules against integrated housing developments.

Some housing programs have been stifled by the congress itself when they appeared to foster open occupancy housing. The 1965 refusal to appropriate funds for the rent supplement program is partly attributable to the fear that localities, northern suburbs as well as southern towns, would be unable to deny access to black families. The House Appropriations Committee re-inserted the requirement of site approval by the local governing body or the existence of a workable program (localities could veto all such projects by simply *not* having a workable program) as the price of subsequent small annual appropriations.

These fiscal, status, and racial factors result in suburban practices that severely limit the supply of land for lower-priced housing. Pressing against this limited supply has been a strong demand among the well-to-do for larger and better homes. The net effect has been a steady rise in land prices at an average rate of 10 to 15 per cent per year during the past decade. Increasing ground cost has a multiplier effect upon the price of new houses: not only is it a larger item itself in the development cost but builders tend to put more expensive houses on more expensive sites. Suppose a builder uses a rule of thumb that the house price should be at least five times the site cost. If improved lots rise from $4,000 to $5,000, he will be inclined to construct homes intended for sale at $25,000, rather than $20,000. When many builders do the same, incremental increases in land costs mean large increases in the prices of new homes, putting them further from the reach of low and moderate income families.

This happened during the past decade. Site costs went up sharply, labor costs and financing charges also increasing. Homebuilders as

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a group adjusted to rising site costs by reducing the multiple of sale price to site cost (from 6 to 5 in the case of FHA insured homes). But the overall effect was to remove the new houses further from the moderate income people. The median price of new one family homes sold in the second quarter of each year was $17,500 in 1962 and $25,700 in 1969, an increase of 47 per cent. Median family income during the same period rose from about $6,500 to $8,300. Comparing the medians as a rough indicator, new home prices were 2.7 times family income in 1962 and 3.1 times income in 1969.

The Romney approach

Faced with such cost trends, it is entirely in character for an industrialist-turned-statesman like George Romney to seek a technological answer. "Operation Breakthrough" is the official name for this effort. What Romney and his advisors hope to do is to attract large-scale corporations into the homebuilding industry, with the ultimate objective of mass production of hundreds of thousands of houses a year at perhaps half the current unit costs.

This effort is still in the development stage; we do not know how successful it will be. If one looks backward, the record of similar attempts in connection with American housing invites skepticism. If one looks forward to the housing demand emerging from our children and their offspring, one is tempted to pray for technical breakthroughs. But several points need to be made that seem to be underestimated by the current technocratic approach.

First, housing expense would not be reduced proportionate to lower building costs, since building cost is only a portion of total cost. A 50 per cent cut in building cost would mean a monthly saving to an owner-occupant of 25 to 30 per cent. For example, if the total development cost of a house were cut from $20,000 to $10,000, the family would have a monthly housing expense of about $150 instead of $210, a 29 per cent reduction. While monthly payments on the mortgage might be cut in half, other housing expense items such as heat, utilities and maintenance would remain unchanged, and local property taxes would still have to be maintained for the support of essential local services.

Point two is that land must be available in large quantities, in the right locations, at reasonable prices if mass development is to occur. To say the least, existing institutions of local government and the private land market are not geared to such a task. Indeed, the institutions and the players are set for another game: small scale, piecemeal development on scattered sites. The local insuring office of FHA will typically react to proposals for large developments by suggesting that the market is too small for the developer's dream and offering to insure only one section at a time. From market analyst

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to chief underwriter, the FHA functionaries are indoctrinated to fear overbuilding. The locality is similarly predisposed against large development. It is not only unprepared with access roads, sewerage systems, and school plant but may see its own extinction in the coming of a colossal new development. The private owners of land, both long-term holders and recent speculators, have their hearts set on extracting the last dollar of unearned increment. To be among the final holdouts with one's parcels, to be able to threaten the developer with unacceptable delays, is the ideal position for the landowner. To these must be added the political and economic weight of the small homebuilders, the building trade unions, the lumber dealers and materials suppliers, who all have a stake in the current building system. They can be counted on to oppose the far-reaching reforms in the assemblage and disposition of land that are prerequisites to mass building in urban areas.

A third consideration is that housing must be serviced by an intricate and costly system of public services. Initially, provision must be made for the heavy capital investments in social infrastructure—schools, streets and utilities—that cost from $4,000 to $6,000 per dwelling unit; then, year after year there will be operating expenses to be paid by the locality. The present method of meeting these local costs—about two-thirds from the local property tax and the rest from a patchwork of federal and state categorical aids—is neither sufficiently responsive to the needs nor effective in tapping the income stream. One set of social statistics will illustrate the point: perhaps 20 to 25 per cent of the postwar housing development was initially built without community sewer systems. In 1962, 37 per cent of the residences of the American people were still not connected to municipal sewers. Of the 63 per cent with connections, almost one-fifth discharged untreated sewage. And a large part of the treatment (about 40 per cent) was simply primary treatment, that is, the trapping of sewage in catchments and exposure to open air. To make effective inroads on this backup of sewerage needs would mean annual spending of 2 to 3 billion dollars for 15 to 20 years rather than the current billion. This is presumably within the means of a nation with GNP approaching 1,000 billion dollars a year, but our present fiscal system and social values do not provide adequately for sewerage or other local public services.

To return to the original point: an attack on house production costs is, at most, a partial answer to providing decent housing and community services for all segments of the American population.

The private income approach

To some students, the problem of poor living conditions is much larger than housing and must therefore be attacked on a wider front.

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Nathan Glazer, for one, has taken the income approach. Testifying before the Douglas Commission in July 1967, Glazer said:

> As I view the experience of the American city with slum dwellers, I have seen that the normal pattern of emergence from the slum has had little to do with housing. It has to do with the state of the economy, the development of new job skills, the rise in educational level. At that point, the slum dweller either moves from the slum, or in some cases has enough money to improve his quarters and stay there. I have therefore thought of how one aids and improves and adapts this process for present slum dwellers. And if we are to do that, our main efforts must be in job creation, job training, education and the like.[2]

Glazer went on to recommend that, so far as the present poor neighborhoods are concerned, the main physical improvements should not be to the dwellings but to public facilities such as streets and playgrounds, and the removal of fire hazards. He would oppose expensive rehabilitation of existing housing or the extensive rebuilding of such areas with public housing. Ultimately, he hopes to see most of the present slum dwellers in an income position to opt for owning single family houses in better neighborhoods.

Glazer's perception is of a housing problem gradually dissolving in the social chemistry of rising income and social mobility. It is the American dream extended to the last remnants of our disinherited. But it is an incomplete formulation for its focuses primarily upon the demand side and assumes that decent homes and neighborhoods can be supplied automatically in the private market. This has never been true—even for the wealthy. Good living environments require large direct investments by government as well as deliberate public policies to channel resources into the production and maintenance of the housing stock. The housing supply is immobile, long-lived, and unresponsive to short run changes in demand. Under such conditions, private market forces cannot be expected to yield satisfactory results for society. In a word, fair income shares for all is a policy much to be welcomed, but it will not do away with the need for public policies and programs that attend to the supply of decent homes and neighborhoods.

Black power

Where Glazer would turn the slum family into an effective earning-spending unit in a market economy, black power advocates seek to build group unity. Eschewing integration as an immediate goal, they seek control of ghetto schools and other neighborhood institutions by organized black groups. With regard to housing:

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[2]Hearings before the National Commission on Urban Problems, Volume 2, p. 246.

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> The tenements of the ghetto represent another target of high priority. Tenants in buildings should form cohesive organizations—unions—to act in their common interest vis-a-vis the absentee slumlord. Obviously, rents should be withheld if the owner does not provide adequate services and decent facilities. But more importantly, the black community should set as a prime goal the policy of having the owner's rights forfeited if he does not make repairs; forfeited and turned over to the black organization which would not only manage the property but own it outright. The absentee landlord is perpetuating a socially detrimental condition, and he should not be allowed to hide behind the rubric of property rights.[3]

Clearly, Carmichael and Hamilton believe that absentee landlords should be put under economic pressure to surrender their properties. Indeed, the process, operating mainly through market forces rather than organized political action, is already under way. In Philadelphia, Baltimore, and even New York, there are evidences of a growing number of vacant and boarded-up residential buildings and partially occupied blocks. Many absentee owners want out; few investors are interested. Such properties may sell at only 2 to 3 times the gross annual rent roll, compared with 5 to 7 times in more desirable neighborhoods. As white families have left the city in large numbers, they have vacated entire districts to blacks and other minority families. Those who cannot make the move to suburban housing because of inadequate income or racial discrimination (or choose not to try) have more choices in the existing inventory of city housing. Thus there is a slackened demand for inferior houses and neighborhoods. Such housing may be allowed to run down, some buildings are ultimately abandoned, here and there structures are removed.

But the private market works very imperfectly in these districts. Lending institutions may still have some mortgages or improvement loans in the area, landlords may cling to hopes for a market reversal or for the city to buy them out, some tenants are too poor or ill-informed to be able to move to a better place. In short, the market adjusts, but slowly, unevenly, impersonally. And thousands of families are trapped in these twilight zones.

The future of the older neighborhoods

What do we do about these older districts, not only the black ghettos but the obsolescent sections occupied by moderate and low income white families? We must of course use public power. Careful, now. We have come this way before. Three long decades ago our predecessors invented urban redevelopment; a war postponed the noble experiment; then in 1949 the Congress said "go." The local

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[3]Stokeley Carmichael and Charles V. Hamilton, *Black Power* (New York: Vintage, 1967), p. 172.

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redevelopment officials, armed with federal subsidies and state powers of condemnation, zeroed in on the slum neighborhoods. More than 60 per cent of the families displaced were black, although blacks numbered less than a third of the total city populations involved. Families received some help in relocating, but they had no choice in whether to stay or to go. They were indeed powerless. Local officials worked with private developers and land was taken where profitable reuses were anticipated. Through June 1965 the reconstruction of urban renewal land was mainly for institutional and public uses (37 per cent), commercial and industrial purposes (27 per cent), and housing (36 per cent). Prior to 1963, most of the new housing was for upper middle income occupancy, reflecting the desire of city officials to attract or hold such people as residents as well as to build up the real estate tax base. Under new policy directives from Housing Administrator Robert C. Weaver, the localities began to turn increasingly to moderate and low income housing reuses; in 1965 about one-third of the residential reuse was for such families, mainly subsidized below market interest rate housing for moderate income people. Meanwhile, in 1964 Congressman William B. Widnall of New Jersey, ranking Republican member of the subcommittee on Housing, succeeded in amending the urban renewal legislation to prohibit extensive clearance of areas where rehabilitation is feasible. Said his Republican colleague on the subcommittee, Mrs. Florence P. Dwyer of New Jersey:

> We trust that the Administrator, in implementing this provision, will take an active interest in encouraging greater use of rehabilitation in urban renewal project areas and refuse to make the new requirement a merely token one. . . .[4]

Such changes did not come unilaterally from the constituted authorities. Among the poor and the disinherited there was a welling-up of expectations and demands. As the civil rights movement gathered steam, one of the targets was slum clearance which had come to be seen as synonymous with "Negro removal." The black community was now in revolt against the arbitrary use of public power for the benefit of others—crosstown expressways, high-rent housing, university expansions, and other improvements in which they do not share.

The notion of community participation in local improvement programs is now codified in Model Cities, Community Action, and similar programs. Community participation can stymie public construction and add turbulence to local decision making. But political democracy in America has never been a formula for tidy solutions

[4]Housing Act of 1964, Instructions to Housing and Home Financing Agency in Committee and Conference Reports (mimeo, Sept. 3, 1964).

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by professional administrators or philosopher kings. Belatedly but hopefully not too late, the poor and the blacks are obtaining a voice in the policies and programs that will shape the future of the older neighborhoods.

A voice but not a final say. For the decisions that must be made in connection with such neighborhoods are still *public* decisions. How much to invest and what priorities to assign in public services to assure that the neighborhood is livable and secure? What public measures of subvention and enforcement are required to secure responsible management of rental housing? Should public funds be used to rebuild old houses extensively at the cost of new ones, or simply to facilitate modest improvements? Should low income families be locked into the ownership of old houses that may prove to be bad bargains? Will the arbitrary use of power by the people downtown be replaced by the arbitrary use of power by neighborhood people who assert it in the name of group unity? And finally, if the older sections are turned over to the residents, is it part of the deal that they be precluded from participating in the newer growth segments of the local economy? That might be a political victory for some but an economic defeat for many.

The housing problem in perspective

By some measures the nation has unquestionably made advances in housing quality over the past thirty years. Outside of rural areas, a large preponderance of families (over 90 per cent) have private toilets, hot and cold running water, and weatherproof structures. Almost two-thirds of all households are homeowners. Housing is a major form of saving and capital investment for the society at large and for many individual families.

But these indicators do not tell the whole story. First, they do not reveal the wide disparities in the quality of public services obtainable in one locality compared with another—disparities in education, recreation and transportation services, for example, that accentuate the disparities in private income. A society that puts a premium on equality of opportunity would probably do the reverse —i.e., provide compensatory levels of public services in the poorer districts or localities. Certainly it would not tie the quality of schools and other public services primarily to the value of real property within each local jurisdiction! It is a concern with such questions that has prompted the Advisory Commission on Intergovernmental Relations to recommend that the state government take over from their localities substantially all costs of education, while the federal government would absorb all state and local welfare costs.

Second, we cannot be complacent about the ways in which new housing is financed and produced. If we are to meet the tremen-

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dous housing needs of the next thirty years, we must develop the means to produce and market on a larger scale and at lower unit costs. Much could be done with existing production techniques and know-how adapatable from other industries. The difficulties appear to be in assembling large tracts of suitably located land; overcoming institutional obstacles in zoning, building codes, and property taxation; and not least, making a market by public underwriting of private demand in the early years of development.

Mr. Romney's Operation Breakthrough will be confronted by these issues. Sooner or later, we must be prepared to reverse old American traditions and assume public responsibility for the taking of private vacant land in locations designated for new, large scale developments. Up to now, public support for eminent domain has only been obtainable in connection with highways or other public facilities and slum clearance. In the interests of natural resource conservation as well as meeting the shelter requirements of a growing population, we shall have to turn to public land acquisition. Proposals for land banks, state-planned new towns, and similar recommendations have come from the Presidential task force headed by industrialist Edgar Kaiser and are being made by other responsible business groups as well as professional land economists.

Third, we are groping toward policies which will conserve the existing inventory of neighborhoods and housing and assure that they remain viable so long as they are needed for occupancy. The problem is most difficult in racially-changing or all black neighborhoods, when mortgage lenders, property insurers, and competent owners and managers decide to pull out. The idea of community ownership by the resident families is being advanced by mayors' task forces as well as exponents of black power. With incentives for efficient operations and trained management, such experiments may prove themselves. Certainly they are worth a try. But there are risks: that the individual family will be put under undue pressure to buy into the old neighborhood; that such efforts will offer the white community the excuse to oppose open occupancy on the grounds that "the blacks now have *their* neighborhoods."

In any case, the existing housing supply represents a tremendous investment that cannot be replaced in less than a generation. Yet many neighborhoods seem susceptible to a peculiarly American syndrome: high mobility. Moving up the status ladder or just moving away is an old habit in this country. Now, mobility is probably not something one should tinker with, for it is the process by which men exercise freedom of choice and strive for personal advancement. But we pay a social cost for rapid turnover in a number of ways, including accelerated neighborhood deterioration. So without trying to slow the process, we should be prepared to support neighborhood civic institutions, neighborhood city halls, and the like

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which will tend to preserve the continuity of neighborhoods. Public facilities will need to be modernized and municipal housekeeping and safekeeping services maintained.

In the past, federal programs tended to focus on neighborhoods that were already in bad shape. More recent programs offer aid for the conservation of essentially sound districts. The 1968 Neighborhood Development Program (NDP), for example, is particularly applicable to areas that are basically sound. The NDP is a variation of urban renewal which encourages spot clearance, street improvements and lighting, housing rehabilitation and similar changes that can be effected in relatively short time periods. Programs like this do not produce dramatic transformations. But they are essential to prevent excessive deterioration of middle-aged neighborhoods.

* * *

Can we do better in housing? There is little doubt that we can. Many of the governmental tools are on the books, others have reached the stage of detailed proposals. The experience of the postwar years in housing and community development holds valuable lessons for those responsible for formulating and executing housing policies. What we now know is that there is no single grand solution for housing. What we are coming to realize is that housing gains depend upon the growth and distribution of the nation's income—the demand side; and, on the supply side, upon changes not only in housing production methods but in the institutions of local government, the land market, and race relations.

Ultimately, however, it depends on what we want to do. President Kennedy's first message on housing placed final responsibility on us when he said, "Our communities are what we make them."

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HOUSING—CAN WE DO BETTER? III

Toward a new federal housing policy

IRVING H. WELFELD

FOR some time now, it has been generally accepted that the federal government has a duty to ensure adequate housing for all its citizens. Accordingly, Congress has enacted a long series of housing subsidy programs, that include public-private partnership and many sophisticated financial devices. Yet despite all these efforts extending over several decades, the results have been meager. The Douglas Commission put the matter this way:

> Over the years, accomplishments in subsidized housing are extremely inadequate. *The Nation in 30 years of public housing built fewer units than Congress, back in 1949, said were needed in the immediate next 6 years.* . . . One might suppose after years of talk and controversy . . . that by now the Nation would have managed to produce a sizable quantity of housing units for low-income families. The record is to the contrary.

Why have we done so badly? The fault lies with the basic approach we have taken. The key components of the present subsidy system—public housing, below market rate interest, rent supplement and the interest subsidy programs—all aim at solving the problem by providing new dwelling units for the poor. Because there is a shortage of standard units and many of the poor live in substandard units, the production of new units for the poor has the virtue of conceptual simplicity and goodness of intention. Unfortunately, the strategy does not work.

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High cost low rent housing

As a matter of elementary logic the strategy of providing new housing for our poorest citizens is an expensive way of approaching volume production. Let us assume that the total amount of government assistance and the cost per housing unit are constant. It follows that the number of units that can be subsidized varies inversely with the rental paid by the occupant of the average unit. And as the income of the potential occupant declines, the amount of the necessary per-unit subsidy increases—and the total number of units that can be subsidized declines. *Thus, by choosing to provide new housing for our poorest citizens, the federal government has adopted a most expensive strategy for increasing the nation's housing supply.*

What we mean by expensive can be seen by briefly examining the subsidy needed for public housing. The development of projects is financed through the sale by local housing authorities of bonds to private investors. The federal government guarantees the full cost of the principal and interest on the bonds. In recent years the actual payment has equalled 95 per cent of the debt service. The estimated total development cost of a unit of public housing in early 1969 was $17,250. Assuming a 40 year amortization and an interest rate of 5.55 per cent, the annual federal payment for each new unit of public housing comes out to $1,018.

Moreover, interest on these bonds is exempt from federal taxes. The resulting revenues loss to the federal government is estimated to be 40 per cent of the interest rate. For a $17,250 unit, this comes to another $283 per year.

These two amounts, which total over $1,300 annually, may be considered the minimum federal subsidy for a unit of public housing. But there are additional subsidies as well. A federal contribution of $120 per unit per year is available for housing units occupied by an elderly family, a large family, a family of unusually low income, or a family displaced by urban renewal or a low rent housing project. If the public housing development is located on an urban renewal site, there usually is a substantial write-down on land costs, a large fraction of which are paid for by the federal government.

Nor is the federal government the only source of subsidies. The exemption of the bonds from local income taxation results in a revenue loss at the local level. Moreover, the projects are exempt from local real estate taxation. It is true that the Local Housing Authority makes "payment in lieu of taxes," but such payment rarely exceeds 10 per cent of the shelter rents of the projects and is considerably smaller than expected tax revenues from new commercial, industrial, or residential development.

In light of these many subsidies, a conservative estimate of the total subsidy for a unit of public housing would be $1,500. This is

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a rather startling figure especially if compared to the market cost of decent housing in a suitable living environment. The most recent government statistics on standards of living tells us that a five-room unit in sound condition—with complete private bath, fully equipped kitchen, hot and cold running water, electricity, central or other installed heating, in a neighborhood free of hazards and nuisances, and with access to public transportation, schools, grocery stores, and play space for the children—could be obtained in metropolitan areas for approximately $1400.

Assuming a rent-to-income ratio of 20 per cent, such a unit costs approximately $800 more than a family with an annual income of $3000 can afford. But the public housing subsidy is approximately double that amount! When that subsidy is added to the rent paid by such a family, *the total cost of the new public housing unit would be about $2000, or approximately 150 per cent of the amount that a decent second-hand unit rents for on the open market.*

Trickle down, turn over

The question mentally poses itself: is the building of new housing the only viable means of achieving large-scale improvements for low income families now living in inadequate environments? What if assistance to the poor took the form of making available to them *existing* housing units? Would these existing units be old and obsolete by the time they became available to the poor? In other words, would reliance on some variant of the trickle-down approach be as unworkable as many now assume?

If one imagines the distribution of income in the United States as a pyramid, with a narrow group of high income households at the top which alone can afford newly constructed housing, then the answer to all these questions is "yes." But while this may once have been a realistic view, it no longer is. As the following statistics show, income distribution in present day America is more accurately represented in the shape of a diamond:

Income level	*Percentage of households*	
(IN CONSTANT 1963 DOLLARS)	1929	1963
Under 2,000	30	11
2,000 to 3,999	38	18
4,000 to 5,999	16	20
6,000 to 7,999	7	18
8,000 to 9,999	3	12
10,000 and up	6	21

Over the past two decades, this change in income distribution has significantly affected the housing of lower-income groups and has affected it for the better. In 1950, new housing needs for the nation

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as a whole were estimated at 20.5 million units, or 44 per cent of total housing supply; in 1960, this figure fell to 15.4 million units, or 26 per cent; and its projected 1970 level is 10.8 million units, or 16 per cent of the nation's housing supply. These gains held true even for housing in the central city and were primarily attributable to the output and productivity of private enterprise. The reason for this dramatic improvement is that, as a result of rising affluence, there has been a remarkable shift in the ratio of housing starts to household formation. During the 60 years preceding 1950, this ratio remained close to 1. But in the 1950's, the ratio stood at 1.5; and in the first 7 years of the 1960's, it rose to a level of 1.7.

In the wake of this increased volume of new construction, there ensued a redistribution of existing units that has vastly improved the housing of the poor. In a study of housing in New York City, Frank Kristof found that *construction of 64 new units gave rise to a "chain of turnover" that extended to a total of 90 additional units.* At the end of this process of turnover, all of the families involved enjoyed higher quality housing. It is true that their rent bills also rose as a result of this upward movement, but due to income increases, the new median rent remained equal to approximately one-fifth of family income. This process of turnover is not quite the same as "filtering" or "trickle down"—these concepts assume that the turnover that results from new construction will be accompanied by decreasing rents. But even without such cost reductions, *the turnover process does make sound housing available to income groups which cannot afford new construction.* It is this process that is largely responsible for the fact that, in 1960, a majority of families at the lowest income levels were living in standard housing.

Although there has been progress, it does not follow that such progress has been fast enough, or that further progress is inevitable, or that we can trust the market to eliminate slums entirely. But it would be equally erroneous to conclude that, because the turnover system does not work perfectly, we must completely disregard the system. To move from the fact of imperfection to the concept of original sin, one must rely not on logic but on theology.

Political unpalatability

The slow pace of present programs is explained not only by the economic inefficiency of the approach, but also by its political unpalatability. There is a basic inequity built into the "new housing for low income families" approach. A policy of taxing Peter to provide housing for Paul, who would otherwise live in squalor, has a simple appeal to human generosity. But a policy of taxing Peter to provide better housing than his own for Paul requires an almost saintly degree of altruism.

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Congress in order to avoid the charge that the program will build "penthouses for the poor" has attempted to resolve the problem by limiting the amenities (both structural and environmental) of the new unit, thereby avoiding both the need for large subsidies and the possibility that those who don't have it will nevertheless be able to flaunt it. Accordingly, every housing subsidy program requires that the unit not be of "elaborate or extravagant design." In the rent supplement program, this dictum has been taken to mean that no unit may contain more than one bathroom—which, in turn, means that any new three-or-more bedroom apartment starts out as an undesirable unit. Air-conditioning was also forbidden, although in certain sections of the country any new unit without it is automatically substandard.

Other ways of limiting expenses have had equally unfortunate consequences. For instance, Congress has set various upper limits on permissible per-unit rents, construction costs, and mortgage amounts which have made it impossible to build new units in the major cities and suburbs of the north and west.

Attempts have also been made to channel the location of the housing so as to limit environmental amenity. A building, even of superior quality, to house the poor may not offend one's sense of equity if it is placed in an inferior neighborhood. If Peter has to pay for Paul's housing, he need not be forced to live next to Paul. The sentiment was translated into federal housing policy via the "workable program" requirement that had been imposed on most of the major housing programs and the need for cooperation from local governments to build and operate public housing. This has resulted in a local veto over sites. Suburban communities have often exercised the veto, if only to exclude modestly designed housing that does not bear an equal share of the property tax burden. As a result of this opposition, housing programs have been forced to build in the high-cost central city, where statutory cost limitations often make construction impossible. Even if housing can be built within those limits, it must often be located in a less than suitable neighborhood environment.

As a result of these pressures, public housing has been transformed in many major cities into a program for the elderly. Not only are the elderly likely to be better neighbors, thereby making site selection easier; but also the higher cost allowances and the additional federal subsidy makes housing for the elderly economically and politically attractive. Thus, 62 per cent of the public housing units started in 1966, and 57 per cent of those started in 1967, were designed for the elderly. And there is reason to believe that these statistics understate the trend.

The present federal housing approach is impaled on the horns of interlocking political and economic dilemmas. New housing for the

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poor must be of sufficient quality to serve a market for at least the life of the mortgage (usually 40 years). It must, therefore, if it is not to be functionally obsolete many years prior to its attaining physical obsolescence, include certain facilities which were yesterday's and (possibly today's) luxuries. The dangers of false economy go beyond the structure iself. If the model tenements of the 19th and early 20th centuries are the building blocks of today's slums, the overly modest projects of today may be the cornerstones of the slums of tomorrow. Yet plain political reality makes it improvident to ignore the taxpayer argument that the necessity to provide decent housing for all is no reason to provide better housing than the unit in which he, the taxpayer, lives.

In spite of good intentions, the direct approach of providing new housing for the poor does not create a suitable framework in which to resolve these conflicting claims. To date, relatively little housing has been constructed; so little, in fact, that public action has destroyed more units of housing than all federally-aided programs have managed to build. And, in spite of the distortions caused by directing programs toward the poor, federal housing policy ends by giving virtually no assistance to the very poorest. Like the original food stamp program, the operation of federal housing programs gives a lot to those who have a little, but nothing to those who have very little. For under all these programs, a tenant must contribute a certain portion of the shelter cost. In rent supplements, the portion must be 30 per cent of the approved rent; in public housing, the sum of the occupants' contributions must cover the operating expenses of the project.

A typical family in Detroit would need an income of $5,805 in order to enable a newly-built public housing project to operate on a solvent basis on the assumption that the family would pay only 20 per cent of their income. During recent years many housing authorities have ignored these economic parameters. As a result almost every major public housing authority is presently facing a fiscal crisis. Attempts to raise rents have pushed tenant rent ratios in many cases far in excess of 25 per cent and have brought a wave of rent strikes. Congress reacting to this crisis in 1969 raised the public housing subsidy. For new projects it will be in the range of $2,000 per unit per year; thereby further restricting the expected volume, and moving the program from the category of expensive to that of absurd.

The obvious question at this juncture is why has federal housing policy continued to receive support in Congress. Part of the answer is to be found in a law of political physics—that a program in being tends to stay in being. But there is an additional explanation that has to do with the peculiar dynamics of liberal and conservative opinion in Congress. Faced with the need to do *something* about

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poor housing, liberals seem willing to accept a policy that produces only tiny numbers of housing units in the hope that, some day, the American people will rise up *en masse* and remove the constraints that vitiate that policy. Meantime, these liberals are content to wage a slow and ineffective struggle that aims at the merest marginal improvements. The conservatives also acknowledge the need for more housing but are deeply uneasy about the political principles implicit in the subsidy program. Yet as long as only a token number of units are built—usually in someone else's district—they are willing to go along with existing policy.

Federal housing policy is thus a classic instance of the art of muddling through. Neither conservatives nor liberals are satisfied with the results of that policy, but both groups continue to accept it because there are seemingly no alternatives. Given that failure to perceive alternatives, the most remarkable thing about federal housing programs is not that they are hampered by limitations, but rather that they exist at all.

Some popular alternatives

Income distribution. If poverty is the primary cause of the housing problem, then the answer would seem to be to provide the poor with income. There are many variations to this redistributive strategy, such as increased welfare allowances, the negative income tax, or a guaranteed annual wage. What these approaches have in common—and what is perhaps their most attractive feature, given the present ineffectual state of federal housing policy—is that they promise to get the government out of the housing business.

Unfortunately, there is only the slightest chance that any of these programs would succeed in improving the housing of the poor. For even if a relatively generous redistributive program were enacted, the problem of "housing poverty" would almost certainly remain. Anthony Downs has explained the reason for such "housing poverty" as follows:

> The income which any household must attain to rent or buy adequate-quality housing without spending too high a proportion of its total income on housing is significantly higher than the 'official poverty level' as defined by the Social Security Administration. This level is calculated by determining what the minimal adequate diet for a given sized household costs, and then multiplying by three. In 1967, this food-based approach resulted in a 'poverty level' of $3,335 for a four-person household. An alternative method of defining poverty using housing as the base would be calculating the cost of renting adequate housing for a given-sized household, and then multiplying by four. Using this approach, and assuming that an 'adequate' house was a newly built apartment unit constructed to meet federally-defined quality standards, the 'housing poverty level' income for a four-person household in 1967 was $8,640.

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But over 60 per cent of all U.S. households had income below this level in 1967. Thus it appears that a majority of Americans were 'housing poor' in relation to new units. [Italics added.]

In short, new housing is just too expensive for even a fairly drastic redistribution of income to help the very poor unless one wishes to favor them over those with average incomes, which is politically impossible.

Used housing subsidies. If housing subsidies are needed, then perhaps they should be limited to *existing* units. Certainly this is a logical extension of the previous analysis. One virtue of this strategy is that the required federal payment per-unit would be smaller. The cost of the previously used second hand three bedroom unit on the private market was approximately $1400 per year. Even assuming no contribution by the tenant, this is $100 less than the minimum subsidy for an average unit of new public housing. Given the same total amount of subsidy, the smaller unit subsidies would increase the number of families which could benefit from a housing subsidy program.

Such an approach is also attractive on political grounds. The provision of standard used housing is a response that seems more nearly commensurate with the problem. Given the fact that the commandment only requires that we love our neighbors as ourselves, but not more so, it is far more likely that American voters, 98 per cent of whom are living in existing units, will find such a program a more palatable way of moving towards the Golden Rule.

There are two basic ways to provide a subsidy which bridges the gap between the rent the poor can afford and the rent the market demands for existing units. The government could subsidize a particular dwelling unit, thereby reducing the required rent, or it could subsidize a particular individual, thereby increasing the amount he has available for housing. In the former approach, the occupant loses the subsidy if he moves; in the latter approach, the subsidy moves with the occupant. Both these approaches are now used on a small scale.

Missing ingredient

In the past few years the latter housing allowance approach has acquired a considerable popularity among liberals. The Kaiser Committee, for example, recently praised such proposals on the grounds that they provide an efficient means for adjusting the supply of housing to the desires of consumers, that they will increase demand for standard units, and that they permit the consumer more freedom to choose a location and housing style that he likes. The irony in all this is that, just 20 years ago, a man like Charles Abrams could write of housing allowances:

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> Subsidies paid directly to the tenant are advocated by real estate groups. Among the many objections to this plan, one is that it would make the tenant a permanent recipient of public charity. There is a vast spiritual difference between paying the required rent on a government-owned building and being on a permanent dole.

There was more to Abrams' criticism than a simple distaste for the real estate lobby. For his criticism was informed by the sad experience with housing allowances during the 1930's:

> During the depression in the 1930's New York City's emergency relief bureau spent $30,000,000 annually for rent—a sum, which, if paid annually, would have been sufficient to subsidize modern, low-rent housing for more than half of the City's slum dwellers. Yet not a single family got a decent home. If standards were raised adequately, the landlords would not have complied and the tenants would not have gotten homes. The dumb-bell flats that were 30 per cent empty simply filled up with the undoubling of families encouraged by rent relief and slum values zoomed. The plan would produce no new housing for slum dwellers and would extend the life of old ones.

The fact is that, even if programs restrict use of the subsidy to standard units, a used housing subsidy is of value only in areas in which there are vacancies in standard units—but that is not the typical situation we face today.

Thus even the housing allowance program shares many of the weaknesses of the project subsidy system and has some of its own as well. Unless one envisions that rental allowances will be raised to the level of public housing subsidies, or that the subsidy will be extended to those who are not poor, the expectation of upgrading slum properties or stimulating new construction through the housing allowance program is nothing more than a pipe dream. Indeed, as even the Kaiser Committee conceded, the most likely result of such a program would be, not the production of new housing, but the raising of rents on existing units. As long as it is directed exclusively at the low income segment of the housing market, a housing allowance program is no more effective an alternative to the current system of federal policy than Tweedledum was to Tweedledee.

A constructive alternative

It is clear that there are direct linkages between the production of new housing and the improvement of the lot of those who are housing poor. But if we are to achieve our national housing goal, *the question of housing production must be divorced from the question of housing assistance to low income families.* It *seems* reasonable to join these objectives because many of the poor are ill-housed. But the history of federal housing policy demonstrates that the result of this connection is more like a short circuit than a short cut.

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There *is* an alternative. If we must simultaneously achieve large volume production and provide the poor with decent housing, there is no reason why we have to follow a single path to achieve these two objectives. And my suggestion is that the federal government should actually begin to follow a double path. It should pursue the objective of increasing housing supply *by subsidizing middle income households;* and it should alleviate the housing problem of the poor *by subsidizing low income families.* The effect, hopefully, would be to increase housing turnover and thereby free a sizeable portion of the existing housing stock for (subsidized) poor families.

Such a strategy would do away with the need for building further public housing projects; it will not, however, negate the need for providing housing assistance to low income families in order that they may afford to move into vacated housing. For this purpose either a variant of an existing used housing program or a new housing allowance program seem to be a perfectly adequate device.

What is required, above all, then, is a new program that will stimulate the construction of new housing for those who are not poor, and especially for those in the middle ranges of the income spectrum.

Outline of proposal[1]

1. Eligible tenants
   a. No income limits.
   b. Tenants receiving subsidy must pay at least 18 per cent of their income for shelter costs.
   c. Tenants chosen by random selection.
2. Amount of subsidy
   a. Difference between the greater—18 per cent of income or 8 per cent of net assets and shelter costs.
   b. Not to exceed $800 except during periods of high interest rates.
3. Eligible project
   a. New or rehabilitated housing financed by a mortgage loan insured under a new section of the National Housing Act.
   b. Housing must be of high enough quality so as to be marketable and a sound investment for the life of the mortgage.
4. Location of unit
   a. Must be in a housing market in which there is a shortage of decent housing.
5. Eligible mortgagor
   a. Any private investor willing to limit his return to 8 per cent of his equity.

[1]A more detailed explanation of the proposal is contained in my article "A New Framework For Federal Housing Aids" in the December 1969 issue of the *Columbia Law Review.*

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b. Amortization period—40 years.
c. Interest rate—variable.
d. Maximum amount—not to exceed 90 per cent of the lesser of (1) the cost of construction or (2) the debt service limitation (assuming that gross rent is calculated by assuming that units will be occupied by households that have incomes at the median for the community and that mortgagor receives the maximum annual subsidy per unit.

Rent ratios. The purpose of the program is to produce a large volume of housing units within the middle range of the market. In order to accomplish this, tenants that are adequately housed must be provided (in Louis Winnick's phrase) with "orchestra seats at balcony prices." The assumption is that, given a bargain, such tenants will seek better housing. Unlike the present housing programs, which have a captive audience, the new program cannot exact as the price of admission a high rent-to-income ratio. Nor is there any need to use the rent-to-income ratio as a test of deservingness or as a guarantee that money saved on housing will not be spent for frivolous purposes.

Setting the rent-to-income ratio involves a trade-off between two competing values. The smaller the ratio, the greater the payment and the greater the incentive—but also the smaller the number of units that can receive a subsidy. Although 18 per cent is to some extent an arbitrary figure, it is low enough that it will not cause undue hardship, yet high enough to assure that the recipients are at least interested in theater.

Income limits. The need for a subsidy will be determined by the relationship between the occupant's income and shelter costs in the local area. Unlike some present housing subsidy programs, in which the amount of the subsidy is not calibrated to the income of the occupant, the subsidy payments under the new program will be keyed to individual housing needs and would cease when they become unnecessary. This would occur when the tenant's income is equal to 5.55 times his rent. He would, however, continue to have the right to occupy the unit even if his income should become quite high.

A low income household will in effect be barred from the project because the subsidy is insufficient to enable him to afford the unit.

Lottery selection. Just as in the selective service system there is no "just" way of choosing those who must serve, so too in the selective subsidy system there is no perfectly just way to select the beneficiary. A lottery, however, is at least a fair method of selection.

This lottery can be on a project-by-project basis. If a family wishes to live at a particular location, it registers with the developer or with the local FHA insuring office. When the project nears com-

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pletion, a drawing is held and the winners are given the right to occupy by paying 18 per cent of their income. If a person wins but desires a unit which is not available, he is placed on a waiting list. If a person wins but cannot afford the unit, he is placed at the top of a list for a housing allowance or for an existing subsidized unit. If a person loses, he can try again at another project or when vacancies occur.

The draft lottery has been criticized on the ground that it is not a "reform but a random distribution of inequity." There are a number of important distinctions between the draft lottery and this proposed housing lottery. While the former imposes a "penalty," the latter selects the recipient of a gift. Nor is the subsidee the only winner. As a result of the turnover process, the entire community is indirectly the beneficiary. A lottery also provides useful marketing information. The number of registrants for a given lottery and their addresses assists in measuring the depth of the market at different locations and gives early warning of changes in older areas. But perhaps the greatest advantage of a lottery is that it provides a random distribution of minority families within new developments and within middle income neighborhoods.

The subsidy. The subsidy would be a payment equal to the difference between 18 per cent of the tenant's income and the approved FHA rental for the unit up to a maximum subsidy of $800 per unit per year. Because we are dealing with an economically mobile group, the average subsidy will be considerably less than the maximum. Assuming an average annual payment of $500 per unit, $500 million per year would support a million units a year. *This is a far greater amount of housing-per-dollar than is achieved under any existing program.*

Quality and quantity

The aim of the program is the production of additional units, therefore the primary emphasis will be on new construction. The housing must be attractive to families that have a moderate amount of choice. Therefore, the unit must be of a fairly high quality.

By not aiming at the low end of the income spectrum the new program will be able to achieve the twin objectives of quality and quantity. There are unlikely to be any objections to building these developments in outlying areas, since they will bear their "fair share" of the property tax burden and be as attractive as any other new developments both in physical appearance and in the class of the tenant. The new program, therefore, will avoid the locational limitations of present programs. This too will produce economic dividends because it is cheaper to build low-rise garden apartments on moderately-priced land than high-rise elevator apart-

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ments on high-priced land. The only limitation on location will be that the units must be built in areas in which there is a housing shortage. If standard vacancies in an area rise above an acceptable minimum, new commitments will be halted.

As a matter of economic good sense the project will be designed to reach as broad a market of income eligibles as possible. This, of course, will usually involve something of a trade-off between high quality and quantity. However, the prospect of a more rapid availability of units to lower income families will, at least during the early years of the program, put priority on the latter goal. Therefore, the mortgage will be limited by a debt service limitation which assumes the units will be occupied by families with incomes at the median for the locality. In most instances this will accord with the best interest of the developer. Building a more expensive project will very likely constrict his market because all potential occupants with incomes below the median will have to pay in excess of 18 per cent of their incomes (the amount of the subsidy being fixed).

Vicious cycle, virtuous circle

By attempting too much, each of our present housing programs produces too little. By attempting in one fell swoop to produce large numbers of new housing units for the poor, each program has managed to antagonize a substantial part of the population. In order to redress their grievances, Congress has imposed restrictions that cripple the program's capacity either to produce very many units or to help very many of the poor. This in turn dashes the expectations of the poor and raises the need for new legislation, which starts the vicious cycle in motion again.

The alternative approach set forth here dissolves the bond between the production problem and the poverty problem. The new framework separates subsidies to facilitate new housing production from subsidies to alleviate the housing problems of the poor. Through these means it is possible to create a harmony of political interests and an economically efficient system. It might even be deemed a virtuous circle. Serving the needs of middle income families has obvious appeal in a predominantly middle class society. It also provides substantial benefits to poor families by allowing existing standard units to "flow down" to lower income families. This in turn makes the more politically acceptable forms of assistance to the poor economically viable, thereby resulting in the achievement of both goals—the elimination of poor housing and of housing poverty.

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AN EXCHANGE OF LETTERS

The black quota at Yale Law School

MACKLIN FLEMING / LOUIS POLLAK

This exchange of private letters between Macklin Fleming, Justice of the Court of Appeal, State of California at Los Angeles, and Louis Pollak, Dean of the Yale Law School, seems to us to raise important issues affecting the public interest. We are grateful to Justice Fleming and Dean Pollak for permission to publish the correspondence—Eds.

Dean Louis H. Pollak
Yale Law School
New Haven, Connecticut 9 June 1969

Dear Lou:

The press of activity on Alumni Day didn't allow me to comment on your report to the Executive Committee of the Yale Law School Association about current admission policy at the Law School. Hence this letter.

From your remarks and those of Dean Poor, I understand that 43 black students have been admitted to next fall's class, of whom 5 qualified under the regular standards and 38 did not. You anticipate that half this group will actually enroll, thus furnishing 22 black students in the first year class of 165, of whom perhaps 3 will have qualified under the regular standards and 19 will not. You also said

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that the future policy of the Law School will be to admit 10 per cent of each entering class without regard to qualification under regular standards. It thus appears that the demand of the Black Law Students Union that 10 per cent of the entering class be black has been more than met. It also appears that 38 fully-qualified applicants for admission to Yale Law School have been rejected solely because they are not members of a minority race. Under current policy the admission ratio for black applicants (50 per cent) is 5 times the admission ratio for other applicants (10 per cent).

This new policy represents a radical departure from that set out in the 1968 Yale Law School catalogue: "Admission is based entirely on a judgment as to the applicant's promise of professional distinction." It is clearly apparent that to this judgment has been added the criterion of race.

With the adoption of its new admission policy the Law School has taken a long step toward the practice of *apartheid* and the maintenance of two law schools under one roof. Already there has been established in the Law School building a Black Law Students Union lounge with furniture and law books provided by the school. And I learned from Dean Poor that the 12 black students in the present first year class who were admitted under relaxed standards have not done well academically. Dean Poor attributed this deficiency to the preoccupation of these students with racial activities. I think it equally logical to attribute their preoccupation with racial activities to their lack of qualification to compete on even terms in the study of law.

Next year the Law School will have in its midst approximately 30 students who were not required to qualify for admission under the regular standards because of their race. Of the 128 admittees to next fall's entering class who had accepted in early April, the highest ranking of 13 minority admitees stood in an 8-way tie for 98th place under the regular criteria for admission. Predictably, most of these students will find themselves unable to compete in law studies on even terms with the other students, who have been admitted on the basis of demonstrated academic performance and aptitude for logical reasoning.

The immediate damage to the standards of Yale Law School needs no elaboration. But beyond this, it seems to me the admission policy adopted by the Law School faculty will serve to perpetuate the very ideas and prejudices it is designed to combat. If in a given class the great majority of the black students are at the bottom of the class, this factor is bound to instill, unconsciously at least, some sense of intellectual superiority among the white students and some sense of intellectual inferiority among the black students. Such a pairing in the same school of the brightest white students in the country with black students of mediocre academic qualifications is social experiment with loaded dice and a stacked deck. The faculty can talk

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around the clock about disadvantaged background, and it can excuse inferior performance because of poverty, environment, inadequate cultural tradition, lack of educational opportunity, etc. The fact remains that black and white students will be exposed to each other under circumstances in which demonstrated intellectual superiority rests with the whites. If to compensate for disadvantaged background, the faculty discriminates among students in its grading and marking, its double standard will be quickly perceived by both groups of students. Because of the Law School's current admission policy the difference between the two groups will be centered on the factor of race.

No one can be expected to accept an inferior status willingly. The black students, unable to compete on even terms in the study of law, inevitably will seek other means to achieve recognition and self-expression. This is likely to take two forms. First, agitation to change the environment from one in which they are unable to compete to one in which they can. Demands will be made for elimination of competition, reduction in standards of performance, adoption of courses of study which do not require intensive legal analysis, and recognition for academic credit of sociological activities which have only an indirect relationship to legal training. Second, it seems probable that this group will seek personal satisfaction and public recognition by aggressive conduct, which, although ostensibly directed at external injustices and problems, will in fact be primarily motivated by the psychological needs of the members of the group to overcome feelings of inferiority caused by lack of success in their studies. Since the common denominator of the group of students with lower qualifications is one of race this aggressive expression will undoubtedly take the form of racial demands—the employment of faculty on the basis of race, a marking system based on race, the establishment of a black curriculum and a black law journal, an increase in black financial aid, and a rule against expulsion of black students who fail to satisfy minimum academic standards.

THESE unhappy prospects flow from the abandonment of an objective system of admission based on intellectual aptitude (painstakingly evolved over a period of decades) and the adoption of a system of admission which takes racial considerations into account. From your remarks and those of other members of the faculty I gather the new system's justification rests on three theories.

The first is a theory of proportional representation. Only 1 per cent of the lawyers in the United States are black, and it is desirable that this percentage be increased to the proportion of the black population in the country, roughly 10 per cent. Consequently, all law schools, including Yale, should have a student body which is 10 per cent black.

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The weakness of the proportional argument is that quotas, once instituted, cannot logically be limited to one group when other groups exist which are equally entitled to quotas. The next step is a series of quotas. But if minorities obtain quotas, demands from majority groups for quotas are bound to ensue. In short order a full-blown quota system would arise which would necessarily impose restrictions on overrepresented groups in order to assure a student body representative of the general population. A quota policy particularly discriminates against minority groups which have achieved disproportionate representation in a particular field. Such a policy discriminated severely against Jewish applicants for admission to medical schools in the 1930's. That policy was undoubtedly justified by its supporters as one designed to preserve a proportion of gentile students in medical schools equivalent to their proportion in the general population. Currently, the orientals in California, roughly 1 per cent of the population, comprise in some instances 30 per cent of the enrollment in certain engineering and technical schools. Were a quota system to be introduced in those schools in order to favor black and Mexican-American applicants, the first losers would be applicants from the presently disproportionately represented oriental group.

A quota system based on race must assume there are two kinds of racial discrimination and two types of quotas: the benign type designed to help a disadvantaged group, and the malignant type designed to prevent over-representation in a particular field by a hard-working and competent minority. This argument wholly ignores the fact that discrimination in favor of X is automatic discrimination against Y. For X and Y substitute any color, religion, or ethnic background; the process remains discriminatory. The argument of benign discrimination glosses over the fact that under a quota system a person is no longer judged on individual merit but is judged in part according to his membership in a group. It also assumes that race is a relevant criterion by which to choose law school applicants.

The faculty may have been persuaded to adopt its present quota system by the argument of inverse, or compensatory, discrimination —that past discrimination against a particular group should be remedied by present discrimination in its favor until the group catches up. Here again the vice lies in the substitution of a group standard of merit for an individual standard and in the extension of the criterion of race to an area in which it should not apply. The American creed, one that Yale has proudly espoused, holds that an American should be judged as an individual and not as a member of a group. To me it seems axiomatic that a system which ignores this creed and introduces the factor of race in the selection of students for a professional school is inherently malignant, no matter how high-minded the purpose nor how benign the motives of those making the selection.

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The aspiration to train more lawyers from minority groups is highly commendable, but I do not believe it will be furthered by putting unqualified or poorly qualified black students in competition with students at Yale Law School who average in the 97th percentile of intellectual achievement (higher than at any other law school). There are many good regional and local law schools in Philadelphia, Boston, Los Angeles, and other metropolitan areas, where black law students can compete with white law students on equal terms and where they can study law in competition with students of similar qualifications and aptitudes. Many of these law schools do not follow Yale's policy of numerically limited enrollment and are geared to handle within reason all students who can qualify for admission. In view of the prevalence of these law schools, the relative ease of admission to many of them, and their flexibility in handling increased numbers of students, the initiation of a system of proportional representation for black students at Yale Law School serves no genuine need or purpose.

THE second justification for the current admission policy derives from the Oxford precedent of training leaders for underdeveloped countries. Oxford admitted students from distant countries—Burma, Nigeria, Kenya—without a close look at their academic qualifications on the theory that whether or not they qualified for serious study, something of Oxford culture would rub off; that when these students returned to their people as leaders they would carry the torch of Oxford with them. It is argued that, comparably, the mission of Yale Law School is to train national leaders, and therefore its students should be representatively selected in order to assure quality leadership for all segments of the population. This theory assumes that the study of law and the mastery of legal principles are merely incidental by products of attendance at Yale Law School. It also assumes that black lawyers compete only with other black lawyers in the practice of a special kind of black jurisprudence and therefore the academic performance of black law students at Yale Law School is largely irrelevant to the development of their future role as national leaders. No theory could be a greater myth, for the law the black lawyer must master to achieve success in his profession is the same law that the white lawyer must learn to handle. In his legal career the black lawyer must expect to compete on even terms with the white lawyer, whether he goes into a government office (executive, legislative, or judicial), a corporate department, or a law firm. Any suggestion to the contrary does a great disservice to black law students, for I think it a safe prediction that national leadership will continue to come, as in the past, from the ranks of those individuals who have risen to the top of their occupations and professions.

The third justification for a policy of racial discrimination is based

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on the suggestion that the traditional measures of qualification for admission to law school—aptitude tests and college grades—are not accurate, and therefore the Law School is justified in not paying strict attention to objective standards of admission. Doubtless there is room for improvement in measuring aptitude in logical reasoning and ability to handle abstract concepts, the qualities demanded for intensive study of law, but from everything I have heard the present tests achieve reasonably accurate results. For many years the Law School prided itself on its ability to predict student performance in law school on the basis of the criteria used for admission, and I have heard nothing to cast doubt on the continued accuracy of such predictions. If these criteria are ignored, the consequences are equally predictable. In 1966 Michigan Law School embarked on a policy of admitting black students under relaxed standards of admission. The results of this policy were reported last fall to Michigan Law School's Committee of Visitors as "disappointing and to a degree demoralizing . . . the academic performance is not satisfactory and some new approaches must be explored." And, I am told, similar academic difficulties are being experienced by the underqualified black students in the first year class at Yale.

In my view none of the above theories justifies the inclusion of race, or disadvantaged status, among the criteria for admission to Yale Law School. While racial quotas may serve a purpose in some contexts, they are entirely irrelevant to the operation of a graduate professional school with limited enrollment, admission to which requires four years of college training and specific aptitude for the profession involved. The present policy of admitting students on two bases and thereafter purporting to judge their performance on one basis is a highly explosive sociological experiment almost certain to achieve undesirable results.

The number of fully qualified minority applicants is growing, and because of increased college attendance the number of those who will qualify for admission to Yale Law School under its regular standards should mushroom within the next few years. Under an open door policy of competitive admission without regard to race, religion, or color, and based solely on demonstrated achievement and aptitude for the study of law, Yale Law School will maintain national leadership in legal training. Under any other policy I think this result doubtful. I urge reconsideration of the current admission policy.

Very truly yours,
MACKLIN FLEMING

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Dean Pollak replies

The Honorable Macklin Fleming
District Court of Appeals
State Building
Los Angeles, California June 23, 1969

Dear Mack:

In characteristically lucid fashion, your letter of June 9 poses many important questions about the Law School's policy of accepting a number of black and other disadvantaged students whose paper academic credentials are not as high as those possessed by the general run of our student body. I hope the following considerations will help to round out the picture.

For as long as I have had any first-hand acquaintance with the Law School's admissions policies and practices (i.e., going back to 1955, when I joined the faculty), the Law School's Admissions Committee has sought to select those applicants who present evidence of substantial promise of high professional capacity. An extraordinary sense as to what evidence of promise is most probative was one of the great skills possessed by our late Associate Dean Jack B. Tate, who was for so long Chairman of the Admissions Committee. Prime indices have of course been the applicant's academic record at college and his performance on the Law School Aptitude Test (LSAT). Secondarily (but to a rather greater degree than has been true at some other major law schools) the Admissions Committee has paid substantial attention to other indices of professional promise--as disclosed by letters of recommendation from teachers; interviews with alumni, and/or members of the faculty, etc. This process has yielded entering classes whose pre-law school academic records have on the average, been very high (higher, apparently, than at any other law school), but without slavish adherence to minimum cut-off figures (whether as to college grades or LSAT scores) which would have operated to foreclose consideration of applicants who, although not preeminent academically during their college years, presented other very compelling evidence of the strong intellectual potential and high motivation which are such vital ingredients in the achievement of distinction in the law.

For years—and long before such skepticism was fashionable—our Admissions Committee has entertained doubts about the predictive value (with respect to ultimate professional distinction) of the LSAT, and even of the college record, for applicants whose childhood and family background are remote from the experiences and aspirations of (primarily white) middle-class America, to which our conventional indices of academic aptitude and achievement are inevitably oriented. With this in mind, the Admissions Committee,

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under Jack Tate's aegis, customarily gave less weight to the LSAT and the rest of the standard academic apparatus in assessing black applicants (and, indeed, occasional white applicants whose histories seemed culturally atypical, or who appeared, for other reasons, to have high promise not reflected in formal academic terms). This means that, at least for the past fifteen years, numerous black students have been admitted to this Law School who would not have been admitted through uncritical application of the normal indices of past academic performance. Not surprisingly—given their lesser academic preparation—most of these students have not achieved academic distinction at the Law School. (Though even this is not uniformly true. A few have compiled high grades and/or achieved membership on the *Law Journal*. Conversely, very few have failed to graduate.) But, in my judgment, the important point is that so many black alumni have, in entering upon the profession, speedily demonstrated professional accomplishments of a high order. And this fact, so it seems to me, sufficiently demonstrates the discernment exercised by the Admissions Committee over the years.

I stress all this because I think it important to recognize that the admissions practices which you call into question are not really new. What is new is the number of black (and other minority) students involved—that is to say, a dozen (or, in this September's entering class, perhaps as many as two dozen) in a class rather than six or three. Enlargement of these numbers requires more extensive recruitment activity (by faculty members, students, and alumni), and it of course imposes on the Admissions Committee a far heavier docket of difficult judgments. But it does not represent a departure from the long-pursued principle that the school has an obligation to train a number of men and women who, notwithstanding limited academic preparation, show promise of significant professional capacity.

I SUBMIT, then, that the real question is whether the school was warranted in enlarging its numerical commitment to this objective. For me, a large part of the answer lies in the fact, which we lawyers have only belatedly realized, that far too few black citizens are being trained for positions of future leadership. Leadership-training is needed on many fronts, but it seems particularly clear that the country needs far more—and especially far more well-trained—black lawyers, bearing in mind that today only 2 or 3 per cent of the American bar is black. Happily, law schools throughout the country—including Harvard, Columbia, and other major schools—are recognizing the depth and urgency of the training obligation which our profession must assume. In this setting, if Yale Law School can play a larger role than it has before in meeting this important national need, it ought to try to do so. And I am persuaded that our past ex-

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perience indicates that we can do more—provided we remain discerning in our judgments of the professional promise of those we admit, and provided also we remain unswervingly committed to the proposition that all students admitted to the Law School will be required to measure up to a single standard of professional excellence.

There are, I think, two answers to the frequently voiced concern that the Law School's educational processes will be diluted through the infusion of a substantial number of students who, however promising in long-run terms, are not yet sufficiently prepared academically to compete on equal terms with the general run of their fellow-students. First, it is the view of the faculty that the school's educational processes are unlikely to be impaired if the number of students with prior educational deficiencies is a minor fraction of the total student body. Second, it seems, in any event, reasonable to expect that the number of black applicants who are well prepared academically will increase markedly within the next few years, as a corollary of the increasing number of blacks matriculating at first-rate colleges; and it is a fair expectation that our Law School can draw a substantial number of those who are highly qualified—or at least that we can do so if, by enlarging our scholarship and loan resources, we can help meet the ever-increasing financial needs of a category of students who are, by and large, in particularly straitened circumstances.

It would, of course, be misleading to suggest that (a) the problem of educational deficiency is confined to blacks (and Mexican-Americans, and Indians, and other racial minorities), or (b) the obligation of leadership-training is racially circumscribed. Of course, the problem and the obligation seem most acute with respect to those groups which have longest and most effectively been set apart from the main currents of American life. But—as the Law School Committee of the University Council persuasively argued in a recent report—the considerations which have led the faculty to enlarge its readiness to accept academically under-prepared applicants of high promise are not confined to blacks or other disadvantaged racial minorities; these same considerations, the committee has observed, argue for greater solicitude with respect to, e.g., white applicants from Appalachia or the rural south. The point is one which will, I am confident, not be lost sight of; for the implications of, and experience under, our present admissions policies will, assuredly, be under continuing review by the faculty. In this connection, I hardly need add that your very perceptive letter will also be of great value to the faculty in its continuing appraisal of our admissions policies. For pushing us to think hard about these hard issues, we are all greatly in your debt.

Sincerely,
LOUIS H. POLLAK

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Quo Warranto? —notes on the governance of universities in the 1970's

DANIEL BELL

QUO WARRANTO? — "By whose right?"—is an ancient legal challenge to authority. The controlling problem of the governance of universities in the 1970's will be the resolution of a crisis in legitimacy, in the definition of authority which justifies any use of power or command. Clearly, in the last two years, there has been an enormous erosion of authority. The cry of the angry student has been, "By what right—who gave you the right—to say so?"

To govern is to exercise authority. In *The Social Contract* Rousseau wrote, "The strongest man is never strong enough to be always master unless he transforms his power into right and obedience into duty. . . ." No institution can live free of the daily shadow of coercion without the freely given consent of its members. A university cannot rule by power. In fact, it has no power other than the reluctant threat of expulsion; and if besieged it has to resort to civil authority, an action that serves merely to confirm a rupture rather than resolve a conflict. The lack of power makes the problem of winning assent much more a question of agreement than of vote, for if a minority finds a situation immoral, or intolerable, a majority vote does not of itself provide legitmacy for action. The problem then is twofold: accepting the challenge to deal with the morality of specific actions; and recreating a generalized trust in the institution. Morality involves

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This essay was written originally as a memorandum for the Carnegie Foundation for the Advancement of Teaching.

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the redefinition of accepted, and often unquestioned, judgments. Trust derives from a belief in the worthwhileness—in short, the character—of an institution.

The older authority of the university (and therefore a definition of its character) was, in Max Weber's sense, of a "traditional"kind. It was rooted in the past and sanctified by its attachment to the central value system of the society. Its role was to exemplify and express those values. Those values were not, however, the ideology of any particular social body, but the maintenance of a tradition of free inquiry and of a consensus about what constituted civility. Recently, particularly the past twenty-five years, the university has sought, again in Weber's sense, a "rational-legal" authority—namely the assertion of a particular expertise (as the source of rational authority) and a willingness to serve society in its pursuit of socially defined goals (the basis of its claim to legal support). These rational-legal claims as well as the traditional authority are being challenged today—first by the students and now in a growing voice by the faculty.

To say that the university must regain its authority is simply to say that the university must live. But live as what? True, there has been an erosion of authority in the society and, to the extent that the university is part of the society, it is subject to forces beyond its control; but there has been a loss of trust in the institution itself because something has happened to its character. I would suggest that the crisis of legitimacy in the university (to the extent that it is specific and not just societal) derives from its assumption of many new and contradictory functions and from its evident inability to fashion a structure appropriate to its purposes. For twenty-five years the American university has been a vast "dumping ground" for tasks that society could not fill elsewhere. The university did not resist—in fact, it often welcomed—the intrusions; but it failed to adapt its structure to the new tasks. Now, the major question is whether the university can fulfill these functions; and if it can not, what tasks should it legitimately assume.

Thus, we have a double problem: to redefine the character of "the university," and to create a system of governance appropriate to that character. Universities have become part of a new system of higher education—yet that system itself has had no central authority to raise questions about the direction of the university, its division of labor, and its acceptance or rejection of specific functions. The irony is that the universities, which have been accused of being an Establishment, lack the first requisite of an Establishment—the readiness and the ability to provide authoritative leadership.

Any forecasts of problems facing the universities in the 1970's inevitably derive from a set of judgments about the relevant issues, and sources of tension, in the society. Some of these are obvious, some less so; but five factors seem to me to be central.

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The Vietnam War. The war is morally dubious to a large section of the society, particularly the youth in the elite universities. But beyond the question of an immediate settlement of the war or the withdrawal of American troops is a deeper question of credibility. Was the decision to extend the American presence in Vietnam, and to undertake a leading role in the fighting, a mistake in judgment, an aberration of foreign policy, hubris about American power and omnipotence, or an integral extension of the character of the society? A significant portion of American youth questions American power and asks whether similar kinds of intervention, overt or covert, will be made in the 1970's. The nature of American foreign policy, the definition of national interest, the role of the United States as a world power, are all problematic today; and these ambiguities affect the judgments and commitments of young people. A significant number are wary or skeptical about the nature of America's intentions as a world power; a smaller number are already actively hostile (because of their vague allegiance to the idea of a *tiers monde,* to anti-Yankee and anticolonial sentiment among the Latin American intelligentsia, or to pro-Maoist or pro-Castro sentiment), and translate this into campus action. The question whether the Vietnam War was "integral" to the American system, whether this country is or not imperialist, will be one of the great ideological debates in the universities —and among historians and political scientists—in the seventies, particularly as the New Left generation moves up into the professoriate. This question surely will affect the debates on the nature of the university's service to the society (e.g. the appropriateness of government-related and military-related research).

The blacks. In the last two years, the blacks have become the most explosive issue on American campuses. Although the tensions will continue and even, intermittently, increase in the next year or two, I think that insofar as the universities are concerned, the situation will ease off by the early 1970's. This prediction is based on the observation that, even now, in spite of some heavy rhetoric, the blacks want to be included, not excluded from, society. Particularly in the universities, there is every disposition on the part of the authorities to accommodate those claims. What we are now witnessing is the familiar sociological trajectory of every dispossessed group that has suddenly been enabled to move into a society from which it had been excluded: the ability to express hostility that has previously been suppressed; the reach of subjective expectations far exceeding objective gains; and the psychological need to assert a new group identity. Black studies and black control of segments of the curricula, it seems to me, are not, in the long run, fractious issues.

The last point needs some elaboration, particularly about the college blacks. It is a familiar sociological phenomenon that a second

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generation that has not experienced the travails and humiliations of its elders often will become more militant and assertive in its expression of its claim and right to leadership. This is an "expressive" phase that is often necessary for consolidating group pride and group progress (witness the *sabras* in Israel). The crucial variable is the *objective* change in circumstances: so long as gains are real, visible, and *steady* (it is the abrupt halt or reversal in social advance that tends to precipitate revolution), then subjective expectations and psychological manifestations eventually become congruent with reality.

In all this, there is a useful analogy with the labor movement of the 1930's, which also had its sit-ins, its militant left-wing leaders, its wild rampages, and the like. But once the mechanisms of advance were institutionalized (in the labor contract), a process of accommodation developed. For the society as a whole, particularly in urban affairs, there is a need to create mechanisms of political bargaining (community control of schools is one such example) analogous to those of economic bargaining in the 1940's and 1950's.[1]

The multiplication of social problems. The most fractious and frustrating dilemmas of the 1970's will be the multiplication of domestic social problems: the environment, urban policy, housing, health, education, etc. These have come to a head for several reasons:

The growth in numbers. Since 1945, ninety million babies have been born in the United States; the net addition to population has been about 60 billion (or more than the total added from the founding of the republic to the Civil War). These individuals have demanded a level of services and amenities higher than that of any previous generation, owing to our rising expectation of a minimum standard of life, at a time when the costs of services have risen more rapidly (particularly in labor intensive areas like health and education) than any other economic sector.

The creation of a national society. In the last thirty years, the United States has become, for the first time, a national society. We have always been a nation, yet not, until now, a national society—one in which change in any one part of the society has an immediate and obvious repercussion in every other part. Social issues are thus more visible, and their impact more coordinated.

The growth of "externalities." Externalities, as economists define the term, is the unintended and often unplanned impact, in short the

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[1] For an exploration of these problems, see Daniel Bell and Virginia Held, "The Community Revolution", *The Public Interest,* no. 16, Summer 1969, especially pp. 173-177.

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"fallout," on Third Party C (and D, E, and F, as well), of a private transaction between private parties A and B. The result is a social cost (though sometimes a social benefit, too). The most obvious example of a social cost is air pollution which is the result, in part, of the larger number of private automobiles. Externalities often call for public action and lead to the expansion of public, as opposed to private, goods. As the national society becomes more interconnected, we can expect the growth of more externalities.

Yet all this comes at a time of triple failure. One is the failure, or the lack, of social knowledge. We just do not know how to cut into the system, how to decide which expenditures have a greater social-multiplier effect than others. We do not know how to organize an effective medical care delivery system. We do not know how to design an effective low-cost housing project (witness the extraordinary disarray of such projects as Pruitt-Igoe in St. Louis). Nor do we know (cf. the Coleman Report) how to organize a meaningful educational system.

The second failure is that of government. In the decade of the New Frontier and the Great Society, we have had many ideas and many programs (several hundred in the Great Society alone), but several of these (e.g. the housing program, and the welfare program) have been failures. In part they have failed because there is a shortage of capable administrators; because there are political pressures which distort the programs; and because there is a simple lack of social knowledge.

The third failure is the unwillingness to support a tax program adequate to social needs. The Vietnam War has only masked (or exacerbated) this failure. But in truth, as the present political agitation reveals, there is a great public cloudiness about the meaning of taxes, and the successive administrations have been unwilling to educate the public about the benefits of taxation. Most people view taxes as money taken from "me" by "them," as a subtraction from income, although actually taxes are the use of money for the necessary purchase of public services that individuals cannot buy for themselves.

In one sense, these are the failures of liberalism, of the easy pieties of liberal platitudes about "government planning" and "social change." These failures have contributed to young peoples disillusionment about the ability of the society to provide social amenities and a livable environment.

All of this will come to a head in the 1970's in a major respect. A society that has become a national society must necessarily become self-conscious about its goals, and the means of reaching them. We know that while we can clean up the environment (at a cost), provide more houses (at least in quantity), spend more for schools, and underwrite ballooning costs of medicine, we cannot do all of

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these at the same time (cf. the National Planning Studies of Leonard Lecht in "costing out" the Eisenhower Commission projections on national goals). We must choose. The great political debates of the 1970's clearly will turn on the subject of national priorities. And the big problem, if we are not to yield simply to organized political pressures, or to the exigencies of the moment, is to try to specify why one or another set of needs must take priority, and for what social reasons. Otherwise we simply multiply the frustrations and the loss of faith in the ability of the system to function.

The post-industrial society. Whether one calls our future state of affairs a "knowledge society," or a post-industrial society, it is becoming increasingly clear that the future urgently requires a highly educated population. I have argued previously in these pages[2] that the post-industrial society will increasingly depend upon the university for the codification of theoretical knowledge. But largely, this is the role of the elite universites. It is also true that there will be a greater occupational need for college-educated persons of all kinds. But in the headlong expansion of higher education, the university has become a gatekeeper, issuing credentials that regulate entry into the places of privilege in the society; indeed, it has almost assumed a quasi-monopoly position in this respect. And like any other human institution that assumes a monopoly position, the university inevitably has become a target for attack.

To a considerable extent, this attack comes from the students themselves. They fear, as the German poet Hans Magnus Enzenberger has put it, "the industrialization of the mind." The metaphor is not too farfetched, so long as one remembers it is a metaphor. The industrial revolution brought with it a new discipline and a new rhythm of work, imposed on the recalcitrant bodies of a rural artisan and farm-labor class. Between 1814 and 1840, the reaction to this imposition took the forms of machine-breaking, wildcat strikes, pastoral romances about the superior and idyllic virtues of times past and an elaborately conspiratorial image of "The Thing"—William Cobbett's word for the Establishment. Recent student outbursts are, to some extent, the early class struggles of the post-industrial society, against the imposition of an "organizational harness" and the discipline of a particular kind of intellectual training and professional expertise. Over the last several years, this organizational harness has been dropped on young people at an earlier and earlier age. The anxiety about admission to college begins early in high school; pressure to choose a major starts in the freshman year; the following year, anxieties about graduate school appear. And the

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[2] "Notes on the Post-Industrial Society," *The Public Interest*, nos. 6 (Winter 1967) and 7 (Spring 1967).

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pressure to remain in school from the draft foreclosed any possibility of a moratorium, a breather between college graduation and graduate school. (Perhaps the recent influx of college graduates into secondary school teaching as a result of the draft will be productive.)

The recent agitation to depreciate the importance of college degrees, to eliminate grades, to have freedom in curriculum, to seek interdisciplinary work and the like, reflects all this pressure. I argued in *The Reforming of General Education* that much of this is logically and educationally unsound and that we need a greater degree of coherence and training in disciplines already in the curriculum. But one has to recognize the latent reasons and anxieties underlying the agitation.

Most assuredly as the student cohort of the late 1960's moves into teaching positions in the 1970's the attack on the established curriculum will gain force. This can be a source of enormously fruitful debate, if it is conducted in positive terms; but, if linked, as it may be, to the larger political issues of the day it will certainly be one of the major problems facing university administration.

The new sensibility. The most diffuse, but in the long run the most potentially disintegrating force in the society is "the new sensibility" in American culture. The relationship between social structure and culture is perhaps the most complicated problem of all social analysis. A change in the economy or technology, constrained as these are by resources and costs, has a determinable time sequence in a society. But changes in expressive symbols and values, in statements about the meaning of experience and in the codes for the guidance of behavior—the dimensions of art and imagination—are unconstrained. At times, as Ortega has said, they foreshadow the social reality of tomorrow because they are played out in the mind; but at times they remain only in the realm of imagination. Thus it is difficult to specify the exact consequences of experiments in sensibility.

For the last hundred years the culture of the Western intelligentsia has been largely anti-institutional and even antinomian. In the celebration of the self and the individual it presented a polarity of the individual versus society. It exalted the idea of the genius, or the artist, above social convention. But these impulses, as expressed from the romantic poets to the surrealists, have been contained by the shaping discipline of form in art. Today one encounters a double movement: an attack on form itself and on any effort to find meaning in art—the breakdown of boundaries and the end of genres; and what Karl Mannheim called "the democratization of genius," the idea that self-expression and self-fulfillment, are open to all without regard for boundaries and limits. In the "cult of experience" all realms of experience must be open and explored. Every-

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thing is under attack: authority, because no man is better than any other; the past, because learning tells us nothing; discipline and specialization, because they constrict experience.

Primarily, what has been added to the anti-institutionalism and antinomianism of the past is anti-intellectualism. What is celebrated is expression rather than idea, improvisation rather than text, sincerity rather than judgment. The psychedelic experience and the drug culture, the search for the "high" and for extended awareness. are the mass manifestations of this phenomenon. In this fierce anti-intellectualism, feeling and sentiment, not cognition, are considered more important. Education becomes not the transmission of learning but a search for "meaningful identity" to be gained by "dialogue," "encounter," and "confrontation."

As the political issues recede, it is likely that this cultural radicalism, which preceded the political, and has deeper roots in the past, will be extended. The cultist aspects of these movements (the Living Theatre, Susan Sontag) may fade from fashion, but it would be a mistake to assume that the deeper impulses will pass. For the time being, all this is restricted to a relatively small number, yet they are the culture-bearers of an age. Just as Rimbaud, less than a hundred years ago, prefigured the beat and hippie cults of the past two decades, so do the Beatles make waves for the decades ahead.

Any cultural movement is multifaceted, and some interesting new areas of creativity will probably emerge from the new sensibility. But the *social* question is not the character of the next kind of high culture, but the fact that, for the first time, a sensibility of this kind has permeated a larger mass which by itself is not creative, yet which presumes that its experience, its search for "the true self" is as relevant as all art.

For the universities, the problem will swell in the 1970's, particularly as the large next high school generation, in which many of these attitudes have taken a strong if inchoate hold, enters the colleges. The situation will be particularly explosive in the humanities where these new impulses find their widest expression.

What does all this add up to for the next generations of college youth, and for the New Left now coming of age? In any immediate sense, the ability of young people to act in an organized, disruptive way will depend, in large measure, on pressing political questions such as the settlement in Vietnam. The SDS itself is in disarray. But if one wants to assess the possible consequences for the 1970's of these attitudes, then one can identify three responses, though not, perhaps, the actual extent and influence of each of them.

1. *Urban guerrillas.* Some small portion of the New Left, completely hostile to the society, has psychologically taken the steps toward becoming "urban guerrillas," ready to act as a revolutionary

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force[3]. Tom Hayden and those who acknowledge his leadership typify this position. In Uruguay and some other countries, these urban guerrillas have already organized "hit-and-run" raids in their effort to disrupt the society. These cadres will be mobilized to exacerbate problems, maintain conflicts, and incite disruptive actions.

2. *The Crazies.* As mass frenzies recede, some small groups of *enragés,* becoming ever more frustrated at their inability to shape reality, will break out in nihilistic, sometimes senseless behavior. This has been the history of ebbing movements, from the Anabaptists to the Anarchists. One sees now, in such movements as the Weathermen and the Crazies, similar types of action. In any large sense, these are not serious. In a few specific places (Berkeley, Boston, New York), they may be responsible for serious incidents.

3. *The Alienated.* A large group of young people, puzzled, angry, alienated, constitute the "mass" for the radicals. While unwilling to act in a disciplined fashion (like the urban guerrillas), or in wild fashion (like the Crazies), they will find particular issues (the Columbia gym, the People's Park) which will be both symbolic and inflammatory.

How many young people are we talking about? We have little way of knowing, though the *Fortune* polls give us some clues—in all, the three groups may reach as high as 30 per cent in the elite schools. A more important consideration, however, and a crucial one for all our problems, is less the percentage than the *change of scale.* In an arena of a thousand students, the five per cent who are active radicals adds up to only 50 activists, and they may have little impact. In an arena of ten thousand students, five per cent comes to 500, and these can form a powerful striking force when the situation is favorable. Our problem for the 1970's is that we are living through a new change of scale.

The university system in the 1970's

The problem of governance is tied up with the question—increasingly an ambiguous one—of what a university is and, more broadly, what *a university system* is in the society. One can, for the purposes of analysis, identify four functions which have been and are being performed today by the university:

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[3] Witness, for example, the following argument for "resistance" by an SDS leader: "The institutions our resistance has desanctified and delegitimatized, as a result of our action against their oppression of others, have lost all authority and, hence, all respect. As such, they have only raw, coercive power. Since they are without legitimacy in our eyes, they are without rights." From a paper given at an SDS meeting in November 1967, "Toward Institutional Resistance," by Carl Davidson, Interorganizational Secretary.

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1) Custodian of the traditions of Western culture and the evaluation of claims to membership in this "great chain of learning." This is the oldest function, and it centered in the humanities. But this function is in process of dissolution. Ten years ago, a serious debate could take place about whether Nietzsche belonged in the canon of great works to the studied in a Humanities course—it actually took place at Columbia. Today, almost anything goes. During one of the sit-ins at Duke University, a student complained (on camera, during a TV news program) that his modern literature course only went up to the 1950's and did not include the 1960's.

2) The search for truth through inquiry and scholarship: the effort to assert the philosophical foundations of certified knowledge, the discovery of the laws of nature, the explication of the norms and rules that govern human behavior. These inquiries still go on, though they have become, necessarily, more technical and specialized.

3) The training of a large number of people as professionals in specific fields. A hundred years ago, one learned on the job. Now, with knowledge increasingly dependent on theory, one learns in a school and then takes a job. This function has been combined in recent years, with mass higher education and technical training on the junior college level.

4) The application of knowledge to social use. This includes, in earlier years, aid to agriculture; more recently it has been the service to military technology and to economic planning.

Since World War II, the third and fourth functions have expanded enormously, for many reasons: the fact that theoretical knowledge has become more intimately entwined with applied research and development; the needs of government and industry, etc. Whatever the reason, one sees the fruits of this in the multiplication of research institutes, centers, and programs in universities, the expansion of research and the service functions.

But all this brings us back to the root question: what is a university? It is startling to realize that we have not really had any adequate definition of a university. The university is ordinarily likened to an extended family, a secular church, to a corporation, to a community, or it is simply described as a microcosm of the society. And the multiplication of functions in recent years leads to increasing ambiguity and amorphousness about the nature of the beast—and this is one of the central reasons for the failure to define adequate governance. If it is like a family, then one kind of standard applies; if like a political community, another set of standards; if like a corporation, a third, and so on. But the very fact that all these meta-

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phors and analogies are possible only multiplies the confusion and makes more difficult the question of asserting some justification—and therefore legitimacy—for authority in the university.

There are, it seems to me, two distinct justifications possible, each (as ideal types) representing markedly different roles for the university.

The first might be called the classical model. This is to say that the university is that institution in the society endowed with the special function (and the extraordinary immunity) of searching for truth and evaluating the culture of its times. In this sense, it is free to question everything—*in theory*. If it is to be true to its purpose, nothing is exempt from its scrutiny. But if it to have the immunity from reprisal that goes with this power, it must obey the self-denying ordinance of remaining at the level of theory, of speculative discourse. The question whether anything is to be put into practice is a question, not for the university, but for the society. In this model, the university stands outside the society, and contains within itself all varieties of creeds and beliefs, and all kinds of persons, subject to the one qualification of competence in the world of learning and scholarship. These qualified individuals, scholars, are free to explore any question, and test all areas of human experience—in theory.

The second might be called the pragmatic model. Here the function of the university is primarily one of service to the society: service in training large numbers of persons, service in the application of knowledge, service of the members of the university in government and elsewhere, etc.

The legitimacy of each type is clear: the first, knowledge for the sake of knowledge; the second, social benefits. But the limitations of each view are also apparent. If one chooses the first, then one is barred, in the role as scholar and researcher (though not as citizen) from political advocacy and active partisanship. If the second, the question becomes: "Who shall decide?" Should the universities serve the military? Or the urban poor? Or the radicals? Should the criterion be national interest, social need, the command of money, the influence of power groups, or what?

While my formulation of the types is extreme, and somewhat abstract, the division is nonetheless real, and some choices will have to be made.

One answer can be to continue what we have at present—in effect, a form of laissez-faire. Those individuals who want to work in an ivory tower can do so; those who want to serve one or another group in the society are free to do what *they* want. This is possible, perhaps, from the point of view of the individual professor in the university. But what of the administrator, the foundation, the alumni, the government, and the various public claimants, those who give the money or make the demands. What choice can they make?

One way out of this difficulty is to realize that there need *not* be

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an either/or choice. If we are to fashion, as we must necessarily do, a national *university system,* then we can allow the different choices to exist within a differentiated system.

The difficulty, hitherto, has been that every institution of higher learning has sought to be, with few exceptions, like every other. What we need is greater variety, serving different aims in a differentiated division of labor. There is no reason why some institutions cannot be primarily in the service of scholarship and learning, with little need to take on added responsibilities. Some institutions can be oriented primarily to research, and others to training.

But in addition to differentiation we also need divestiture. The university has become a multipurpose institution taking on all the chores that a society cannot take care of elsewhere. When the military could not find disinterested sources of advice in industry, it created the Lincoln Lab and MITRE Corporation at MIT. When the Ford Foundation wanted to extend a system of public broadcast laboratories, it asked Columbia University to accept the responsibility, which at first it did, and then declined. When the AEC needed a manager for its Argonne Lab, it turned to the University of Chicago. But why should the universities take on all these functions? The problem for the 1970's I would predict, will be the effort of the universities to divest themselves of many of these tasks; and this is as it should be.

If there is to be a national university system, then we need to initiate more sustained thought about its desirable shape. Should graduate schools and their research preoccupations be linked with large undergraduate colleges? Should one not have two kinds of graduate schools, one for detailed research training and one for broader education? What is the optimal size of a single campus? What kind of division of labor can be created among universities as regards concentrations in different fields? Should some kinds of research be detached from universities and lodged either in government, in nonprofit institutions, or in some kind of academy structure (as in the Soviet Union)?

These are questions about structure and function. But if one goes further and links them to the question of legitimacy, one should, perhaps, grasp the nettle and make some further, broad distinctions. Can one give all universities—private and state, small and large, elite and mass, liberal arts and junior colleges—the same cloak of immunity and privilege that is worn in the classical model? What is "academic freedom" in a junior college and how does this differ from the citizenship of a corporation employee to speak his mind politically? Does membership in a "faculty" with all its privileges, extend to teaching assistants and librarians? In the present "Idea" of a university, we have a hollow ideology that is contradicted by a complex reality.

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For the sake of argument, what would a national university system look like, if divided along the lines of legitimacy that I have proposed? In effect, we would have three different systems:

a) An autonomous system of elite universities and liberal arts colleges whose justifications would reside in their allegiance to the classic pursuits of truth and scholarship and also would be recipients of the traditional immunities of a university so conceived.

b) A large-scale system of state universities and junior colleges whose functions would be professional and technical training.

c) A large-scale research and service system which would be client-oriented—to the government, to industry, to the various minorities—and whose function would be primarily that of applying knowledge to technological and social problems.

The system I have outlined so schematically is open, of course, to the charge of elitism. It is subject, more serious, to the accusation that in the character of knowledge and its application such distinctions are false and unreal. Perhaps. Each of these arguments is debatable. But the simple point is that these issues have never really been debated. If one is to think seriously of a national system of higher education, serving various purposes in a meaningful division of labor, surely we must initiate this kind of debate.

The immediate issues

This discussion has dealt largely with deep-rooted structural problems of the university system. Yet there are some immediate problems of governance ahead.

The containment of disruption. While it is unlikely that we shall see more student uprisings of the scope of those in the past two years—I believe the crest has been reached—obviously there will be many new and recurrent episodes. The problem to be considered is not the scope of these protests—this is hard to predict—but the altered character of the chief organizing force, the SDS, and what this portends for the universities.

The character of the SDS has changed. Early studies of student activists, such as those by Keniston, Flacks, and M. Brewster Smith, portrayed them as passionate, idealistic youngsters who, looking at the evident imperfections of the society, sought to redress these evils at a great personal sacrifice of time and even of careers. Whatever the truth of these characterizations—and I believe they were on the whole accurate at the time—the picture is vastly different today. What these earlier studies have failed to take into account is a situational logic. For one thing, the kinds of action employed—militant, boisterous, disruptive, personally aggressive—have attracted to the movement many unstable personality types for whom the attack on

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authority is a sanction for their own obsessive rages and the acting out of hostile impulses. The "paranoid style" has become a feature of the SDS. More importantly—and we see here the repetition of what Frank S. Meyer has described, in a Fund for the Republic study, as "*The Molding of a Bolshevik*," a "hardening" process which has also been graphically portrayed by Bertolt Brecht in his play *The Measure Taken*. The SDS organizational form has been transformed from its early open, spontaneous emphasis on participatory democracy to a closed, manipulative cadre form of organization, ready to use deceit and violence in order to gain its ends.

This trajectory of change is a product, in part, of being a harassed and hunted minority; more to the point, it is inherent in the political logic of a group that has become more determinedly revolutionary and finds that its older, anarchist mode is inadequate to its new aims.

The SDS picture is further complicated by a split in the organization that has now produced three groups claiming the use of the name: one, the faction whose headquarters are in Boston, controlled by Progressive Labor, the Maoist wing of radicalism; the other two, wings of the Revolutionary Youth Movement. The PL faction emphasizes the need for a "working-class alliance," and tends to be anti-drug and anti-pornographic. The Weatherman faction of R.Y.M. which controls the Chicago national office, thinks of students as the adventurist spearhead of a revolutionary movement. R.Y.M. II has become an old-fashioned radical youth movement, with overtones of Castroism.

Both aspects—the splits and the change in organizational character—will reduce the size and effectiveness of SDS. Sectarian wrangling drives away many individuals, and is a diversion of energies. The kind of commitment now demanded by SDS is too extreme for most students. Yet the rivalry between the various factions, plus the desire of both to "prove" themselves, may in the short run provoke more disruptions, as the SDS groups seek to inflame existing issues and find new ones.

How can such disruptions be contained? We must realize that the issue of disruption and of the character of the university are one. The authority of a university is not a civil authority but a moral one. It can deal with disruptions—or the threat of disruption—not by invoking civil force but by rallying an entire community to establish common rules of common procedue. Disruptive students can only be contained by a faculty and other students, not by police.

This is not to say that police should never be used. But calling in the police is not a last resort or a first resort, but one that may be used only after an administration and faculty and students have been mobilized on the issues. The failure of the Columbia administration in April 1968 was its aloofness, not from the SDS, but from its own faculty and students. It was the SDS which initiated the vio-

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lence at Columbia by insisting that the university was the microcosm of the society and challenging its authority. After some confusion, the administration, in its actions, accepted this definition and sought to impose its authority on the campus by resorting to force. But in a community one cannot regain authority simply by asserting it, or by using force to suppress dissidents.

Authority, in this case, is like respect. One can only *earn* the authority, the loyalty of one's students, by going in and arguing with them, by engaging in full debate, and, when the merits of proposed changes are recognized, taking the necessary steps quickly enough to be convincing. During April 1968, the Columbia administration never explained its case on the issues, and it had a good one (as Roger Starr has shown in his article "The Case of the Columbia Gym," *The Public Interest,* Fall, 1968). The following year, when the SDS made wild allegations about the role of the university in community evictions, they were quickly answered in a White Paper, and the agitation collapsed. At Harvard, it seems to me, President Pusey drew the wrong conclusions from the Columbia example by moving to call in the police soon rather than late, instead of first mobilizing the Harvard community to condemn the seizure of University Hall.

In short, the point at issue is not SDS, for SDS is not concerned any longer with redress of specific evils or with genuine reform, but the confused allegiances of the moderate students. Without the support of the moderates, the SDS actions begin to crumble, as they did at Columbia and Chicago in the spring of 1968.

On the question of containing disruption, a crucial variable is the *style of leadership.* In situations of conflict or stress, the university, like any institution, needs a rallying symbol, and this is, necessarily, the president of the institution. Clark Kerr's conjecture (in *The Uses of the University*) that the president of a university would have to be a mediator is not so. The president needs to be active and cool, and aware of the ideological currents that are running so swiftly in the schools.

Structure and representation. One of the immediate reforms that must take place in many of our institutions of higher learning is the creation of juridical and representational bodies to deal with policy issues of the university. The university, today, faces a special problem. The idea of a small community of scholars (with senior common rooms and junior common rooms to mark the differences in rank) on the Oxbridge model is clearly inapplicable in the United States. Given its size and varied functions, the university today mingles a political model (as regards faculty self-governance and self-selection) with a bureaucratic model (in the relation of an administration to the students, often in the organization of research, relation to the com-

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munity, etc.). The clarification of these differences—how far the university must go in being a political community, and how much bureaucratization is necessary—is one of the most pressing problems in the explication of university governance.

Clearly the university must become, more formally, a political community. The making of policy decisions must be open, subject to debate, and to some form of confirmation by the relevant constituencies in the university. There are, it seems to me, three major areas which require exploration:

1). *The structure of representation.* The problem will vary from school to school. In some unitary colleges there might be some kind of proportional representation between faculty as a whole, administration, and students; in other, federated institutions, there would be representation by federated unit, etc. So far as I know, there are no studies of the range of representational structures and the rationales for each.

2). *The relevant constituencies.* Who is to have a vote, and of what kind (with vote or without), in university deliberations? The librarians are pressing for faculty status. The teaching assistant wants to be considered as having a faculty role, though usually he is also a graduate student. Do nontenured and tenured personnel have equal voice on all issues? Again, there is here a major area in need of research and clarification of principle.

3). *The division of powers.* What decisions, if any, are reserved for the trustees, who are often the legal custodians of the corporation? What kinds of administrative action are subject to review, and by whom? To state these questions is to indicate again how little discussion there has been of these most crucial issues of university life.

Beyond all these problems, one crucial consideration—which most people accept as metaphor, yet rarely explore in practice—has to be observed: that all these problems take place within a change of scale unprecedented in the history of the university. A change of scale is not simply a linear extension of size. As Galileo once defined it in his square cube law, a change of *size* is a change in *form*, and consequently in institution. Most of our older discussions of rights and responsibilities, the allocation of powers and the devolution of responsibilities, are modelled on an organizational form whose size is of a vastly smaller magnitude than our own. It is this change of scale, in all its dimensions, and for all its consequences, that still has to be explored.

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The economic common sense of pollution

LARRY E. RUFF

We are going to make very little real progress in solving the problem of pollution until we recognize it for what, primarily, it is: an economic problem, which must be understood in economic terms. Of course, there are *noneconomic* aspects of pollution, as there are with all economic problems, but all too often, such secondary matters dominate discussion. Engineers, for example, are certain that pollution will vanish once they find the magic gadget or power source. Politicians keep trying to find the right kind of bureaucracy; and bureaucrats maintain an unending search for the correct set of rules and regulations. Those who are above such vulgar pursuits pin their hopes on a moral regeneration or social revolution, apparently in the belief that saints and socialists have no garbage to dispose of. But as important as technology, politics, law, and ethics are to the pollution question, all such approaches are bound to have disappointing results, for they ignore the primary fact that pollution is an economic problem.

Before developing an economic analysis of pollution, however, it is necessary to dispose of some popular myths.

First, pollution is not new. Spanish explorers landing in the sixteenth century noted that smoke from Indian campfires hung in the air of the Los Angeles basin, trapped by what is now called the inversion layer. Before the first century B.C., the drinking waters of Rome were becoming polluted.

Second, most pollution is not due to affluence, despite the current

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popularity of this notion. In India, the pollution runs in the streets, and advice against drinking the water in exotic lands is often well taken. Nor can pollution be blamed on the self-seeking activities of greedy capitalists. Once-beautiful rivers and lakes which are now open sewers and cesspools can be found in the Soviet Union as well as in the United States, and some of the world's dirtiest air hangs over cities in Eastern Europe, which are neither capitalist nor affluent. In many ways, indeed, it is much more difficult to do anything about pollution in noncapitalist societies. In the Soviet Union, there is no way for the public to become outraged or to exert any pressure, and the polluters and the courts there work for the same people, who often decide that clean air and water, like good clothing, are low on their list of social priorities.

In fact, it seems probable that affluence, technology, and slow-moving, inefficient democracy will turn out to be the cure more than the cause of pollution. After all, only an affluent, technological society can afford such luxuries as moon trips, three-day weekends, and clean water, although even our society may not be able to afford them all; and only in a democracy can the people hope to have any real influence on the choice among such alternatives.

What *is* new about pollution is what might be called the *problem* of pollution. Many unpleasant phenomena—poverty, genetic defects, hurricanes—have existed forever without being considered problems; they are, or were, considered to be facts of life, like gravity and death, and a mature person simply adjusted to them. Such phenomena become problems only when it begins to appear that something can and should be done about them. It is evident that pollution has advanced to the problem stage. Now the question is what can and should be done?

Most discussions of the pollution problem begin with some startling facts: Did you know that 15,000 tons of filth are dumped into the air of Los Angeles County every day? But by themselves, such facts are meaningless, if only because there is no way to know whether 15,000 tons is a lot or a little. It is much more important for clear thinking about the pollution problem to understand a few economic concepts than to learn a lot of sensational-sounding numbers.

Marginalism

One of the most fundamental economic ideas is that of *marginalism,* which entered economic theory when economists became aware of the differential calculus in the 19th century and used it to formulate economic problems as problems of "maximization." The standard economic problem came to be viewed as that of finding a level of operation of some activity which would maximize the net

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gain from that activity, where the net gain is the difference between the benefits and the costs of the activity. As the level of activity increases, both benefits and costs will increase; but because of diminishing returns, costs will increase faster than benefits. When a certain level of the activity is reached, any further expansion increases costs more than benefits. At this "optimal" level, "marginal cost"—or the cost of expanding the activity—equals "marginal benefit," or the benefit from expanding the activity. Further expansion would cost more than it is worth, and reduction in the activity would reduce benefits more than it would save costs. The net gain from the activity is said to be maximized at this point.

This principle is so simple that it is almost embarrassing to admit it is the cornerstone of economics. Yet intelligent men often ignore it in discussion of public issues. Educators, for example, often suggest that, if it is better to be literate than illiterate, there is no logical stopping point in supporting education. Or scientists have pointed out that the benefits derived from "science" obviously exceed the costs and then have proceeded to infer that their particular project should be supported. The correct comparison, of course, is between *additional* benefits created by the proposed activity and the *additional* costs incurred.

The application of marginalism to questions of pollution is simple enough conceptually. The difficult part lies in estimating the cost and benefits functions, a question to which I shall return. But several important qualitative points can be made immediately. The first is that the choice facing a rational society is *not* between clean air and dirty air, or between clear water and polluted water, but rather between various *levels* of dirt and pollution. The aim must be to find that level of pollution abatement where the costs of further abatement begin to exceed the benefits.

The second point is that the optimal combination of pollution control methods is going to be a very complex affair. Such steps as demanding a 10 per cent reduction in pollution from all sources, without considering the relative difficulties and costs of the reduction, will certainly be an inefficient approach. Where it is less costly to reduce pollution, we want a greater reduction, to a point where an additional dollar spent on control anywhere yields the same reduction in pollution levels.

Markets, efficiency, and equity

A second basic economic concept is the idea—or the ideal—of the self-regulating economic system. Adam Smith illustrated this ideal with the example of bread in London: the uncoordinated, selfish actions of many people—farmer, miller, shipper, baker, grocer—provide bread for the city dweller, without any central control and at

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the lowest possible cost. Pure self-interest, guided only by the famous "invisible hand" of competition, organizes the economy efficiently.

The logical basis of this rather startling result is that, under certain conditions, competitive prices convey all the information necessary for making the optimal decision. A builder trying to decide whether to use brick or concrete will weigh his requirements and tastes against the prices of the materials. Other users will do the same, with the result that those whose needs and preferences for brick are relatively the strongest will get brick. Further, profit-maximizing producers will weigh relative production costs, reflecting society's productive capabilities, against relative prices, reflecting society's tastes and desires, when deciding how much of each good to produce. The end result is that users get brick and cement in quantities and proportions that reflect their individual tastes and society's production opportunities. No other solution would be better from the standpoint of all the individuals concerned.

This suggests what it is that makes pollution different. The efficiency of competitive markets depends on the identity of *private* costs and *social* costs. As long as the brick-cement producer must compensate somebody for every cost imposed by his production, his profit-maximizing decisions about how much to produce, and how, will also be socially efficient decisions. Thus, if a producer dumps wastes into the air, river, or ocean; if he pays nothing for such dumping; and if the disposed wastes have no noticeable effect on anyone else, living or still unborn; then the private and social costs of disposal are identical and nil, and the producer's private decisions are socially efficient. *But if these wastes do affect others, then the social costs of waste disposal are not zero. Private and social costs diverge, and private profit-maximizing decisions are not socially efficient.* Suppose, for example, that cement production dumps large quantities of dust into the air, which damages neighbors, and that the brick-cement producer pays these neighbors nothing. In the social sense, cement will be over-produced relative to brick and other products because users of the products will make decisions based on market prices which do not reflect true social costs. They will use cement when they should use brick, or when they should not build at all.

This divergence between private and social costs is the fundamental cause of pollution of all types, and it arises in any society where decisions are at all decentralized—which is to say, in any economy of any size which hopes to function at all. Even the socialist manager of the brick-cement plant, told to maximize output given the resources at his disposal, will use the People's Air to dispose of the People's Wastes; to do otherwise would be to violate his instructions. And if instructed to avoid pollution "when possible," he does not know what to do: how can he decide whether more brick or cleaner air is more important for building socialism? The capitalist manager is in exactly

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the same situation. Without prices to convey the needed information, he does not know what action is in the public interest, and certainly would have no incentive to act correctly even if he did know.

Although markets fail to perform efficiently when private and social costs diverge, this does not imply that there is some inherent flaw in the idea of acting on self-interest in response to market prices. Decisions based on private cost calculations are typically correct from a social point of view; and even when they are not quite correct, it often is better to accept this inefficiency than to turn to some alternative decision mechanism, which may be worse. Even the modern economic theory of socialism is based on the high correlation between managerial self-interest and public good. There is no point in trying to find something—some omniscient and omnipotent *deus ex machina* —to replace markets and self-interest. Usually it is preferable to modify existing institutions, where necessary, to make private and social interest coincide.

And there is a third relevant economic concept: the fundamental distinction between questions of efficiency and questions of equity or fairness. A situation is said to be efficient if it is not possible to rearrange things so as to benefit one person without harming any others. That is the *economic* equation for efficiency. *Politically*, this equation can be solved in various ways; though most reasonable men will agree that efficiency is a good thing, they will rarely agree about which of the many possible efficient states, each with a different distribution of "welfare" among individuals, is the best one. Economics itself has nothing to say about which efficient state is the best. That decision is a matter of personal and philosophical values, and ultimately must be decided by some political process. Economics can suggest ways of achieving efficient states, and can try to describe the equity considerations involved in any suggested social policy; but the final decisions about matters of "fairness" or "justice" cannot be decided on economic grounds.

Estimating the costs of pollution

Both in theory and practice, the most difficult part of an economic approach to pollution is the measurement of the cost and benefits of its abatement. Only a small fraction of the costs of pollution can be estimated straightforwardly. If, for example, smog reduces the life of automobile tires by 10 per cent, one component of the cost of smog is 10 per cent of tire expenditures. It has been estimated that, in a moderately polluted area of New York City, filthy air imposes extra costs for painting, washing, laundry, etc., of $200 per person per year. Such costs must be included in any calculation of the benefits of pollution abatement, and yet they are only a part of the relevant costs—and often a small part. Accordingly it rarely is possible to

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justify a measure like river pollution control solely on the basis of costs to individuals or firms of treating water because it usually is cheaper to process only the water that is actually used for industrial or municipal purposes, and to ignore the river itself.

The costs of pollution that cannot be measured so easily are often called "intangible" or "noneconomic," although neither term is particularly appropriate. Many of these costs are as tangible as burning eyes or a dead fish, and all such costs are relevant to a valid economic analysis. Let us therefore call these costs "nonpecuniary."

The only real difference between nonpecuniary costs and the other kind lies in the difficulty of estimating them. If pollution in Los Angeles harbor is reducing marine life, this imposes costs on society. The cost of reducing commercial fishing could be estimated directly: it would be the fixed cost of converting men and equipment from fishing to an alternative occupation, plus the difference between what they earned in fishing and what they earn in the new occupation, plus the loss to consumers who must eat chicken instead of fish. But there are other, less straightforward costs: the loss of recreation opportunities for children and sportsfishermen and of research facilities for marine biologists, etc. Such costs are obviously difficult to measure and may be very large indeed; but just as surely as they are not zero, so too are they not infinite. Those who call for immediate action and damn the cost, merely because the spiney starfish and furry crab populations are shrinking, are putting an infinite marginal value on these creatures. This strikes a disinterested observer as an overestimate.

The above comments may seem crass and insensitive to those who, like one angry letter-writer to the Los Angeles *Times,* want to ask: "If conservation is not for its own sake, then what in the world *is* it for?" Well, what *is* the purpose of pollution control? Is it for its own sake? Of course not. If we answer that it is to make the air and water clean and quiet, then the question arises: what is the purpose of clean air and water? If the answer is, to please the nature gods, then it must be conceded that all pollution must cease immediately because the cost of angering the gods is presumably infinite. But if the answer is that the purpose of clean air and water is to further human enjoyment of life on this planet, then we are faced with the economists' basic question: given the limited alternatives that a niggardly nature allows, how can we best further human enjoyment of life? And the answer is, by making intelligent marginal decisions on the basis of costs and benefits. Pollution control is for lots of things: breathing comfortably, enjoying mountains, swimming in water, for health, beauty, and the general delectation. But so are many other things, like good food and wine, comfortable housing and fast transportation. The question is not which of these desirable things we should have, but rather what combination is most desirable. To de-

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termine such a combination, we must know the rate at which individuals are willing to substitute more of one desirable thing for less of another desirable thing. Prices are one way of determining those rates.

But if we cannot directly observe market prices for many of the costs of pollution, we must find another way to proceed. One possibility is to infer the costs from other prices, just as we infer the value of an ocean view from real estate prices. In principle, one could estimate the value people put on clean air and beaches by observing how much more they are willing to pay for property in nonpolluted areas. Such information could be obtained; but there is little of it available at present.

Another possible way of estimating the costs of pollution is to ask people how much they would be willing to pay to have pollution reduced. A resident of Pasadena might be willing to pay $100 a year to have smog reduced 10 or 20 per cent. In Barstow, where the marginal cost of smog is much less, a resident might not pay $10 a year to have smog reduced 10 per cent. If we knew how much it was worth to everybody, we could add up these amounts and obtain an estimate of the cost of a marginal amount of pollution. The difficulty, of course, is that there is no way of guaranteeing truthful responses. Your response to the question, how much is pollution costing *you,* obviously will depend on what you think will be done with this information. If you think you will be compensated for these costs, you will make a generous estimate; if you think that you will be charged for the control in proportion to these costs, you will make a small estimate.

In such cases it becomes very important how the questions are asked. For example, the voters could be asked a question of the form: Would you like to see pollution reduced x per cent if the result is a y per cent increase in the cost of living? Presumably a set of questions of this form could be used to estimate the costs of pollution, including the so-called "unmeasurable" costs. But great care must be taken in formulating the questions. For one thing, if the voters will benefit differentially from the activity, the questions should be asked in a way which reflects this fact. If, for example, the issue is cleaning up a river, residents near the river will be willing to pay more for the cleanup and should have a means of expressing this. Ultimately, some such political procedure probably will be necessary, at least until our more direct measurement techniques are greatly improved.

Let us assume that, somehow, we have made an estimate of the social cost function for pollution, including the marginal cost associated with various pollution levels. We now need an estimate of the benefits of pollution—or, if you prefer, of the costs of pollution abatement. So we set the Pollution Control Board (PCB) to work on this task.

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The PCB has a staff of engineers and technicians, and they begin working on the obvious question: for each pollution source, how much would it cost to reduce pollution by 10 per cent, 20 per cent, and so on. If the PCB has some economists, they will know that the cost of reducing total pollution by 10 per cent is *not* the total cost of reducing each pollution source by 10 per cent. Rather, they will use the equimarginal principle and find the pattern of control such that an additional dollar spent on control of any pollution source yields the same reduction. This will minimize the cost of achieving any given level of abatement. In this way the PCB can generate a "cost of abatement" function, and the corresponding marginal cost function.

While this procedure seems straightforward enough, the practical difficulties are tremendous. The amount of information needed by the PCB is staggering; to do this job right, the PCB would have to know as much about each plant as the operators of the plant themselves. The cost of gathering these data is obviously prohibitive, and, since marginal principles apply to data collection too, the PCB would have to stop short of complete information, trading off the resulting loss in efficient control against the cost of better information. Of course, just as fast as the PCB obtained the data, a technological change would make it obsolete.

The PCB would have to face a further complication. It would not be correct simply to determine how to control existing pollution sources given their existing locations and production methods. Although this is almost certainly what the PCB would do, the resulting cost functions will overstate the true social cost of control. Muzzling existing plants is only one method of control. Plants can move, or switch to a new process, or even to a new product. Consumers can switch to a less-polluting substitute. There are any number of alternatives, and the poor PCB engineers can never know them all. This could lead to some costly mistakes. For example, the PCB may correctly conclude that the cost of installing effective dust control at the cement plant is very high and hence may allow the pollution to continue, when the best solution is for the cement plant to switch to brick production while a plant in the desert switches from brick to cement. The PCB can never have all this information and therefore is doomed to inefficiency, sometimes an inefficiency of large proportions.

Once cost and benefit functions are known, the PCB should choose a level of abatement that maximizes net gain. This occurs where the marginal cost of further abatement just equals the marginal benefit. If, for example, we could reduce pollution damages by $2 million at a cost of $1 million, we should obviously impose that $1 million cost. But if the damage reduction is only $1/2 million, we should not and in fact should reduce control efforts.

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This principle is obvious enough but is often overlooked. One author, for example, has written that the national cost of air pollution is $11 billion a year but that we are spending less than $50 million a year on control; he infers from this that "we could justify a tremendous strengthening of control efforts on purely economic grounds." That *sounds* reasonable, if all you care about are sounds. But what is the logical content of the statement? Does it imply we should spend $11 billion on control just to make things even? Suppose we were spending $11 billion on control and thereby succeeded in reducing pollution costs to $50 million. Would this imply we were spending too *much* on control? Of course not. We must compare the *marginal* decrease in pollution costs to the *marginal* increase in abatement costs.

Difficult decisions

Once the optimal pollution level is determined, all that is necessary is for the PCB to enforce the pattern of controls which it has determined to be optimal. (Of course, this pattern will not really be the best one, because the PCB will not have all the information it should have.) But now a new problem arises: how should the controls be enforced?

The most direct and widely used method is in many ways the least efficient: direct regulation. The PCB can decide what each polluter must do to reduce pollution and then simply require that action under penalty of law. But this approach has many shortcomings. The polluters have little incentive to install the required devices or to keep them operating properly. Constant inspection is therefore necessary. Once the polluter has complied with the letter of the law, he has no incentive to find better methods of pollution reduction. Direct control of this sort has a long history of inadequacy; the necessary bureaucracies rarely manifest much vigor, imagination, or devotion to the public interest. Still, in some situations there may be no alternative.

A slightly better method of control is for the PCB to set an acceptable level of pollution for each source and let the polluters find the cheapest means of achieving this level. This reduces the amount of information the PCB needs, but not by much. The setting of the acceptable levels becomes a matter for negotiation, political pull, or even graft. As new plants are built and new control methods invented, the limits should be changed; but if they are, the incentive to find new designs and new techniques is reduced.

A third possibility is to subsidize the reduction of pollution, either by subsidizing control equipment or by paying for the reduction of pollution below standard levels. This alternative has all the problems of the above methods, plus the classic shortcoming which

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plagues agricultural subsidies: the old joke about getting into the not-growing-cotton business is not always so funny.

The PCB will also have to face the related problem of deciding *who* is going to pay the costs of abatement. Ultimately, this is a question of equity or fairness which economics cannot answer; but economics can suggest ways of achieving equity without causing inefficiency. In general, the economist will say: if you think polluter A is deserving of more income at polluter B's expense, then by all means give A some of B's income; but do *not* try to help A by allowing him to pollute freely. For example, suppose A and B each operate plants which produce identical amounts of pollution. Because of different technologies, however, A can reduce his pollution 10 per cent for $100, while B can reduce his pollution 10 per cent for $1,000. Suppose your goal is to reduce total pollution 5 per cent. Surely it is obvious that the best (most efficient) way to do this is for A to reduce his pollution 10 per cent while B does nothing. But suppose B is rich and A is poor. Then many would demand that B reduce his pollution 10 per cent while A does nothing because B has a greater "ability to pay." Well, perhaps B does have greater ability to pay, and perhaps it is "fairer" that he pay the costs of pollution control; but if so, B should pay the $100 necessary to reduce A's pollution. To force B to reduce his own pollution 10 per cent is equivalent to taxing B $1,000 and then blowing the $1,000 on an extremely inefficient pollution control method. Put this way, it is obviously a stupid thing to do; but put in terms of B's greater ability to pay, it will get considerable support though it is no less stupid. The more efficient alternative is not always available, in which case it may be acceptable to use the inefficient method. Still, it should not be the responsibility of the pollution authorities to change the distribution of welfare in society; this is the responsibility of higher authorities. The PCB should concentrate on achieving economic efficiency without being grossly unfair in its allocation of costs.

Clearly, the PCB has a big job which it will never be able to handle with any degree of efficiency. Some sort of self-regulating system, like a market is needed, which will automatically adapt to changes in conditions, provide incentives for development and adoption of improved control methods, reduce the amount of information the PCB must gather and the amount of detailed control it must exercise, and so on. This, by any standard, is a tall order.

Putting a price on pollution

And yet there is a very simple way to accomplish all this. ***Put a price on pollution.*** A price-based control mechanism would differ from an ordinary market transaction system only in that the PCB would set the prices, instead of their being set by demand-supply

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forces, and that the state would force payment. Under such a system, anyone could emit any amount of pollution so long as he pays the price which the PCB sets to approximate the marginal social cost of pollution. Under this circumstance, private decisions based on self-interest are efficient. If pollution consists of many components, each with its own social cost, there should be different prices for each component. Thus, extremely dangerous materials must have an extremely high price, perhaps stated in terms of "years in jail" rather than "dollars," although a sufficiently high dollar price is essentially the same thing. In principle, the prices should vary with geographical location, season of the year, direction of the wind, and even day of the week, although the cost of too many variations may preclude such fine distinctions.

Once the prices are set, polluters can adjust to them any way they choose. Because they act on self-interest they will reduce their pollution by every means possible up to the point where further reduction would cost more than the price. Because all face the same price for the same type of pollution, the marginal cost of abatement is the same everywhere. If there are economies of scale in pollution control, as in some types of liquid waste treatment, plants can cooperate in establishing joint treatment facilities. In fact, some enterprising individual could buy these wastes from various plants (at negative prices—i.e., they would get paid for carting them off), treat them, and then sell them at a higher price, making a profit in the process. (After all, this is what rubbish removal firms do now.) If economies of scale are so substantial that the provider of such a service becomes a monopolist, then the PCB can operate the facilities itself.

Obviously, such a scheme does not eliminate the need for the PCB. The board must measure the output of pollution from all sources, collect the fees, and so on. But it does not need to know anything about any plant except its total emission of pollution. It does not control, negotiate, threaten, or grant favors. It does not destroy incentive because development of new control methods will reduce pollution payments.

As a test of this price system of control, let us consider how well it would work when applied to automobile pollution, a problem for which direct control is usually considered the only feasible approach. If the price system can work here, it can work anywhere.

Suppose, then, that a price is put on the emissions of automobiles. Obviously, continuous metering of such emissions is impossible. But it should be easy to determine the average output of pollution for cars of different makes, models, and years, having different types of control devices and using different types of fuel. Through graduated registration fees and fuel taxes, each car owner would be assessed roughly the social cost of his car's pollution, adjusted for whatever control devices he has chosen to install and for his driving habits.

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If the cost of installing a device, driving a different car, or finding alternative means of transportation is less than the price he must pay to continue his pollution, he will presumably take the necessary steps. But each individual remains free to find the best adjustment to his particular situation. It would be remarkable if everyone decided to install the same devices which some states currently require; and yet that is the effective assumption of such requirements.

Even in the difficult case of auto pollution, the price system has a number of advantages. Why should a person living in the Mojave desert, where pollution has little social cost, take the same pains to reduce air pollution as a person living in Pasadena? Present California law, for example, makes no distinction between such areas; the price system would. And what incentive is there for auto manufacturers to design a less polluting engine? The law says only that they must install a certain device in every car. If GM develops a more efficient engine, the law will eventually be changed to require this engine on all cars, raising costs and reducing sales. But will such development take place? No collusion is needed for manufacturers to decide unanimously that it would be foolish to devote funds to such development. But with a pollution fee paid by the consumer, there is a real advantage for any firm to be first with a better engine, and even a collusive agreement wouldn't last long in the face of such an incentive. The same is true of fuel manufacturers, who now have no real incentive to look for better fuels. Perhaps most important of all, the present situation provides no real way of determining whether it is cheaper to reduce pollution by muzzling cars or industrial plants. The experts say that most smog comes from cars; but *even if true, this does not imply that it is more efficient to control autos rather than other pollution sources.* How can we decide which is more efficient without mountains of information? The answer is, by making drivers and plants pay the same price for the same pollution, and letting self-interest do the job.

In situations where pollution outputs can be measured more or less directly (unlike the automobile pollution case), the price system is clearly superior to direct control. A study of possible control methods in the Delaware estuary, for example, estimated that, compared to a direct control scheme requiring each polluter to reduce his pollution by a fixed percentage, an effluent charge which would achieve the same level of pollution abatement would be only half as costly—a saving of about $150 million. Such a price system would also provide incentive for further improvements, a simple method of handling new plants, and revenue for the control authority.

In general, the price system allocates costs in a manner which is at least superficially fair: those who produce and consume goods which cause pollution, pay the costs. But the superior efficiency in control and apparent fairness are not the only advantages of the

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price mechanism. Equally important is the ease with which it can be put into operation. It is not necessary to have detailed information about all the techniques of pollution reduction, or estimates of all costs and benefits. Nor is it necessary to determine whom to blame or who should pay. All that is needed is a mechanism for estimating, if only roughly at first, the pollution output of all polluters, together with a means of collecting fees. Then we can simply pick a price—any price—for each category of pollution, and we are in business. The initial price should be chosen on the basis of some estimate of its effects but need not be the optimal one. If the resulting reduction in pollution is not "enough," the price can be raised until there is sufficient reduction. A change in technology, number of plants, or whatever, can be accommodated by a change in the price, even without detailed knowledge of all the technological and economic data. Further, once the idea is explained, the price system is much more likely to be politically acceptable than some method of direct control. Paying for a service, such as garbage disposal, is a well-established tradition, and is much less objectionable than having a bureaucrat nosing around and giving arbitrary orders. When businessmen, consumers, and politicians understand the alternatives, the price system will seem very attractive indeed.

Who sets the prices?

An important part of this method of control obviously is the mechanism that sets and changes the pollution price. Ideally, the PCB could choose this price on the basis of an estimate of the benefits and costs involved, in effect imitating the impersonal workings of ordinary market forces. But because many of the costs and benefits cannot be measured, a less "objective," more political procedure is needed. This political procedure could take the form of a referendum, in which the PCB would present to the voters alternative schedules of pollution prices, together with the estimated effects of each. There would be a massive propaganda campaign waged by the interested parties, of course. Slogans such as "Vote NO on 12 and Save Your Job," or "Proposition 12 Means Higher Prices," might be overstatements but would contain some truth, as the individual voter would realize when he considered the suggested increase in gasoline taxes and auto registration fees. But the other side, in true American fashion, would respond by overstating *their* case: "Smog Kills, Yes on 12," or "Stop *Them* From Ruining *Your* Water." It would be up to the PCB to inform the public about the true effects of the alternatives; but ultimately, the voters would make the decision.

It is fashionable in intellectual circles to object to such democratic procedures on the ground that the uncultured masses will not make correct decisions. If this view is based on the fact that the technical

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and economic arguments are likely to be too complex to be decided by direct referendum, it is certainly a reasonable position; one obvious solution is to set up an elective or appointive board to make the detailed decisions, with the expert board members being ultimately responsible to the voters. But often there is another aspect to the antidemocratic position—a feeling that it is impossible to convince the people of the desirability of some social policy, not because the issues are too complex but purely because their values are "different" and inferior. To put it bluntly: many ardent foes of pollution are not so certain that popular opinion is really behind them, and they therefore prefer a more bureaucratic and less political solution.

The question of who should make decisions for whom, or whose desires should count in a society, is essentially a noneconomic question that an economist cannot answer with authority, whatever his personal views on the matter. The political structures outlined here, when combined with the economic suggestions, can lead to a reasonably efficient solution of the pollution problem in a society where the tastes and values of all men are given some consideration. In such a society, when any nonrepresentative group is in a position to impose its particular evaluation of the costs and benefits, an inefficient situation will result. The swimmer or tidepool enthusiast who wants Los Angeles Harbor converted into a crystal-clear swimming pool, at the expense of all the workers, consumers, and businessmen who use the harbor for commerce and industry, is indistinguishable from the stockholder in Union Oil who wants maximum output from offshore wells, at the expense of everyone in the Santa Barbara area. Both are urging an inefficient use of society's resources; both are trying to get others to subsidize their particular thing—a perfectly normal, if not especially noble, endeavor.

If the democratic principle upon which the above political suggestions are based is rejected, the economist cannot object. He will still suggest the price system as a tool for controlling pollution. With any method of decision—whether popular vote, representative democracy, consultation with the nature gods, or a dictate of the intellectual elite—the price system can simplify control and reduce the amount of information needed for decisions. It provides an efficient, comprehensive, easily understood, adaptable, and reasonably fair way of handling the problem. It is ultimately the only way the problem will be solved. Arbitrary, piecemeal, stop-and-go programs of direct control have not and will not accomplish the job.

Some objections aren't an answer

There are some objections that can be raised against the price system as a tool of pollution policy. Most are either illogical or apply with much greater force to any other method of control.

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For example, one could object that what has been suggested here ignores the difficulties caused by fragmented political jurisdictions; but this is true for any method of control. The relevant question is: what method of control makes interjurisdictional cooperation easier and more likely? And the answer is: a price system, for several reasons. First, it is probably easier to get agreement on a simple schedule of pollution prices than on a complex set of detailed regulations. Second, a uniform price schedule would make it more difficult for any member of the "cooperative" group to attract industry from the other areas by promising a more lenient attitude toward pollution. Third, and most important, a price system generates revenues for the control board, which can be distributed to the various political entities. While the allocation of these revenues would involve some vigorous discussion, any alternative methods of control would require the various governments to raise taxes to pay the costs, a much less appealing prospect; in fact, there would be a danger that the pollution prices might be considered a device to generate revenue rather than to reduce pollution, which could lead to an overly-clean, inefficient situation.

Another objection is that the Pollution Control Board might be captured by those it is supposed to control. This danger can be countered by having the board members subject to election or by having the pollution prices set by referendum. With any other control method, the danger of the captive regulator is much greater. A uniform price is easy for the public to understand, unlike obscure technical arguments about boiler temperatures and the costs of electrostatic collectors versus low-sulfur oil from Indonesia; if pollution is too high, the public can demand higher prices, pure and simple. And the price is the same for all plants, with no excuses. With direct control, acceptable pollution levels are negotiated with each plant separately and in private, with approved delays and special permits and other nonsense. The opportunities for using political influence and simple graft are clearly much larger with direct control.

A different type of objection occasionally has been raised against the price system, based essentially on the fear that it will solve the problem. Pollution, after all, is a hot issue with which to assault The Establishment, Capitalism, Human Nature, and Them; any attempt to remove the issue by some minor change in institutions, well within The System, must be resisted by The Movement. From some points of view, of course, this is a perfectly valid objection. But one is hopeful that there still exists a majority more concerned with finding solutions than with creating issues.

There are other objections which could be raised and answered in a similar way. But the strongest argument for the price system is not found in idle speculation but in the real world, and in particular,

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in Germany. The Rhine River in Germany is a dirty stream, recently made notorious when an insecticide spilled into the river and killed millions of fish. One tributary of the Rhine, a river called the Ruhr, is the sewer for one of the world's most concentrated industrial areas. The Ruhr River valley contains 40 per cent of German industry, including 80 per cent of coal, iron, steel and heavy chemical capacity. The Ruhr is a small river, with a low flow of less than half the flow on the Potomac near Washington. The volume of wastes is extremely large—actually exceeding the flow of the river itself in the dry season! *Yet people and fish swim in the Ruhr River.*

This amazing situation is the result of over forty years of control of the Ruhr and its tributaries by a hierarchy of regional authorities. These authorities have as their goal the maintenance of the quality of the water in the area at minimum cost, and they have explicitly applied the equimarginal principle to accomplish this. Water quality is formally defined in a technological rather than an economic way; the objective is to "not kill the fish." Laboratory tests are conducted to determine what levels of various types of pollution are lethal to fish, and from these figures an index is constructed which measures the "amount of pollution" from each source in terms of its fish-killing capacity. This index is different for each source, because of differences in amount and composition of the waste, and geographical locale. Although this physical index is not really a very precise measure of the real economic *cost* of the waste, it has the advantage of being easily measured and widely understood. Attempts are made on an *ad hoc* basis to correct the index if necessary—if, for example, a non-lethal pollutant gives fish an unpleasant taste.

Once the index of pollution is constructed, a price is put on the pollution, and each source is free to adjust its operation any way it chooses. Geographical variation in prices, together with some direct advice from the authorities, encourage new plants to locate where pollution is less damaging. For example, one tributary of the Ruhr has been converted to an open sewer; it has been lined with concrete and landscaped, but otherwise no attempt is made to reduce pollution in the river itself. A treatment plant at the mouth of the river processes all these wastes at low cost. Therefore, the price of pollution on this river is set low. This arrangement, by the way, is a rational, if perhaps unconscious, recognition of marginal principles. The loss caused by destruction of *one* tributary is rather small, if the nearby rivers are maintained, while the benefit from having this inexpensive means of waste disposal is very large. However, if *another* river were lost, the cost would be higher and the benefits lower; one open sewer may be the optimal number.

The revenues from the pollution charges are used by the authorities to measure pollution, conduct tests and research, operate dams to regulate stream flow, and operate waste treatment facilities where

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economies of scale make this desirable. These facilities are located at the mouths of some tributaries, and at several dams in the Ruhr. If the authorities find pollution levels are getting too high, they simply raise the price, which causes polluters to try to reduce their wastes, and provides increased revenues to use on further treatment. Local governments influence the authorities, which helps to maintain recreation values, at least in certain stretches of the river.

This classic example of water management is obviously not exactly the price system method discussed earlier. There is considerable direct control, and the pollution authorities take a very active role. Price regulation is not used as much as it could be; for example, no attempt is made to vary the price over the season, even though high flow on the Ruhr is more than ten times larger than low flow. If the price of pollution were reduced during high flow periods, plants would have an incentive to regulate their production and/or store their wastes for release during periods when the river can more easily handle them. The difficulty of continuously monitoring wastes means this is not done; as automatic, continuous measurement techniques improve and are made less expensive, the use of variable prices will increase. Though this system is not entirely regulated by the price mechanism, prices are used more here than anywhere else, and the system is much more successful than any other.[1] So, both in theory and in practice, the price system is attractive, and ultimately must be the solution to pollution problems.

"If we can go to the moon, why . . . etc?

"If we can go to the moon, why can't we eliminate pollution?" This new, and already trite, rhetorical question invites a rhetorical response: "If physical scientists and engineers approached their tasks with the same kind of wishful thinking and fuzzy moralizing which characterizes much of the pollution discussion, we would never have gotten off the ground." Solving the pollution problem is no easier than going to the moon, and therefore requires a comparable effort in terms of men and resources and the same sort of logical hard-headedness that made Apollo a success. Social scientists, politicians, and journalists who spend their time trying to find someone to blame, searching for a magic device or regulation, or complaining about human nature, will be as helpful in solving the pollution problem as they were in getting us to the moon. The price system outlined here is no magic formula, but it attacks the problem at its roots, and has a real chance of providing a long-term solution.

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[1] For a more complete discussion of the Ruhr Valley system, see Allen V. Kneese, *The Economics of Regional Water Quality Management* (Baltimore, Md.: Johns Hopkins Press, 1964).

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The economics of the 1960's— a backward look

OTTO ECKSTEIN

THE 1960's are behind us. What have we learned? And what should we forget? Regretfully, there still is little study of the history of economic policy. Historians record the minutiae of foreign affairs and domestic politics, but the successes and failures of economic policy, which affect the lives of the people more directly than the struggles of personalities for power, are still not the subject of serious study. The books by Arthur Schlesinger and Eric Goldman on the Kennedy and Johnson administrations give short shrift to economic management.

This essay cannot fill that void. It presents only the reflections of a brief participant in the economic policies of the 1960's, and a partial assessment of that decade in the area of domestic policy.

Concerns of the late 1950's

In 1959 the Joint Economic Committee studies on *Employment, Growth, and Price Levels* expressed concern about the slow growth of the economy in the 1950's, the rising unemployment, and the increasing frequency of recessions. All these were blamed on the restrictive policies in the management of aggregate demand, a low rate of increase in the money supply of only 1.9 per cent for 1953-1959, and a destabilizing fiscal policy because of the gyrations of the defense budget. The Committee issued reports about the dimensions of poverty and the inadequacy of health care, but it implicitly argued that if

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the economic growth rate was increased, poverty would be reduced and the resources would be created to help solve all our problems. Economic growth, then, was the major issue as we entered the 1960's.

The critics of the 1950's maintained that the "natural" growth of the American economy was substantially higher than the performance. By "natural" growth they meant the performance that is possible, given advancing technology, the institutional arrangements (e.g., sector distributions) of the economy, and full utilization of this potential. Leon Keyserling, who made economic growth a major issue, argued that the economy was capable of growing at a full 5 per cent a year. James Knowles, in his pioneer aggregate production function study for *Employment, Growth, and Price Levels*, produced a medium estimate 3.9 per cent, with a half per cent on either side for low or high growth policies. In reply to these voices, Edward F. Denison, in his famous study *Sources of Economic Growth*, concluded that the natural rate of growth was only 3 per cent, implying that the policy of the 1950's was not in error, and that even major changes in investment in physical and human capital would accelerate the rate of growth by only a few small decimals. If 1 per cent sounds like a quibble, we should realize that an additional 1 per cent of economic growth during the decade is $85 billion of extra output by 1969.

No extra jobs

Actually, the economy grew at an annual average rate of 4.6 per cent during the decade 1959-1969. To obtain the natural rate of growth one must correct for the gap of 4 per cent between actual and potential GNP in 1959 and for an overfull employment of 2 per cent of potential in 1969. Thus, the apparent growth of potential GNP was 4 per cent for the decade; James Knowles was right.

Where did Denison go wrong? The depression of the 1930's did more harm to the economy than the Denison analysis indicated. The loss in capital formation, and perhaps the lost technology and innovations as well, were not fully made up when World War II brought full employment. High employment has raised potential growth above prewar standards.

How was the high growth rate achieved in the 1960's? Economic measures enacted in 1962 stimulated the rate of growth of the economy's potential through the investment credit and more liberal depreciation allowances. The neoclassical school of investment analysts, led by Dale Jorgenson, assigns great weight to this stimulus, though other equations can probably explain the historical record as well. Without doubt, these measures helped accelerate capital goods spending by mid-1963. They led to certain abuses, including an excessive growth of leasing. But the investment credit idea has not obtained a firm place in our institutional structure and is about to disappear.

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The government also launched manpower programs designed to reduce structural unemployment. These programs are generally judged to be a mixed success. Some disadvantaged workers and youth were helped, but the distribution of unemployment was little changed. The supply of highly skilled labor was not augmented significantly. Indeed, this supply, particularly in the construction trades, appears to have worsened during the decade. The bulge at the bottom of unskilled, poorly educated, and youth remains.

The government also invested heavily in health. During the 1960's, Medicare and Medicaid financed major outlays for the aged and the poor. Although desirable from a human point of view, there is little immediate impact on economic growth from such spending, though Medicaid will improve the health care of children and will ultimately help growth.

Federal outlays on education rose rapidly, though again there was little direct impact on output from these expenditures. The Elementary and Secondary Education Act is a strategic human investment that should yield handsome returns if administered properly. Government support of science and technology continued to grow in the 1960's, though mainly as a by-product of other goals; the defense and space programs paid for over half of all physical research, though toward the close of the decade the cost of the Vietnam war had begun to squeeze the vast outlays for research.

Policies to stimulate area and regional growth loomed large in the early agenda of 1960. The Area Development Act, the Appalachia programs, and their successors reflected this impulse. But it was prosperity that solved most of this problem, as the number of major labor market areas with substantial unemployment fell from 25 to just 3 (two of them in Puerto Rico). In most instances programs succumbed to politics; they provided federal public works money with above-normal generosity, but this was spread thin over too many areas. The regional development focus has now shifted to the ghettos. It remains to be seen whether the money will be spent more wisely.

In sum, the policies to stimulate growth were substantial and had some success. But the high growth performance of the decade was mainly the result of the normal, rapid technological advance which has characterized the American economy for a century (except for the depression) and the resumption of a normal rate of national investment. But all this was possible as a result of the success of the administration's "new economics" fiscal policies which created the environment in which natural growth forces could flourish.

The achievement of fiscal policy

The central feature of economics in the 1960's was the triumph of modern fiscal policy. It was a victory slow in coming. Six years passed

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from the time in 1958 when many economists, Arthur Burns as well as the Keynesians, saw the need for a tax cut until the needed policy prevailed. Why did it take so long to take the commonsense step of reducing an excessive burden of taxation, so obviously in the interest of politicians and their constituencies? It is a dramatic example of the power of established prejudices over self-interest, even of ideas that were quite wrong.

First, even Keynesian economists forgot the lesson of their master, that an economy could remain at underemployment equilibrium. Public and scientific opinion had come to accept the necessity of government deficits when the economy was sliding into recession. But the classical view of the natural tendency to return to full employment remained deeply ingrained. At the bottom of the 1958 recession, the leading indicators established that the lower turning point had been reached and tax reduction was ruled out. The Samuelson task force to president-elect Kennedy concluded that the economy was in an upswing, and therefore did not endorse immediate tax reduction. Even this sophisticated group fell into the classical trap. (Or was it political realism?) Recovery proceeded, and by 1962 unemployment had fallen to 5.5 per cent. But then the economy stalled. Months dragged by as a good set of figures would raise hopes of renewed advance and the next month would dash them. Only gradually was it recognized that the tax burden was excessive and that the economy was going nowhere. In this respect, the Council of Economic Advisers understood the issue long before its academic allies.

Second, the concept of the annually balanced budget and the fear of debt still held many persons in its grip. Few outside the government believed that a tax cut would pay for itself—as it did—and so it appeared that the initial impact of tax reduction would be an enlargement of the budget deficit.

Third, the structuralists, with a following both in the Federal Reserve Board and the Department of Labor, argued that the high unemployment was the outcome of an imbalance between the new, technologically advanced jobs and the supply of unskilled, disadvantaged workers. The structuralists had a legitimate point in advocating an upgrading of a portion of the labor force. But in overstating their case they were obstructionists to modern fiscal policy. When the economy finally approached full employment after 1964, the job gains of the unskilled and of the disadvantaged greatly exceeded the gains of the more skilled; we discovered the social power of a tight labor market.

Fourth, Professor Galbraith's voice, carrying from Delhi to Washington, argued that tax reduction would permanently lower the government's ability to command resources. He favored the traditional Keynesian route of stimulating the economy through

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expenditures. Whatever the merits of greater public spending, the simple fact was that the Congress of the early 1960's would not go that route.

Fifth, advocates of tax reform felt that tax reduction offered them the only opportunity to put together a political package which would make the Congress accept the closing of loopholes. The theory was that Congress would give the President some tax reform in exchange for the privilege of cutting taxes. Actually it was the President and his advisors who wanted tax reduction, while tax reform was a millstone around fiscal policy. Ironically, tax reform has finally been enacted by an eager Congress, forcing a mildly enthusiastic administration to accept reform in exchange for a brief extension of the tax surcharge.

Sixth, the monetary school of economists argued that tax reduction was a minor element in economic policy, and that what was really needed to stimulate the economy was a more suitable increase in the money supply. At the time of the great fiscal debate, however, the monetary school had little influence and cannot be said to have been a significant factor in the delay.

After six years the taxes were cut. By July 1965, before defense contracts began to rise, unemployment was down to 4.5 per cent and falling rapidly, the economy was growing at over 5 per cent a year, and wholesale prices were still stable and no higher than five years earlier. The economy had shown, at least for 18 happy months, that it could prosper without war with sensible, modern economic management; doubts about fiscal policy were wiped out, and for a year or two economists rode high indeed.

Then came the Vietnam war and the end, for a period at least, of modern fiscal policy. The budget underestimated defense spending by $10 billion for fiscal 1967 and $5 billion for fiscal 1968. The impact on the economy was underestimated by larger amounts because of the greater jumps in defense contracts. If the economic impact of the war had been known, the excise taxes would not have been cut in the summer of 1965. In early 1966 there should have been a broad across-the-board tax increase. But taxes were not increased because the President could not get the American people to pay for the war. In the end, the war paralyzed the political process, producing the surrealistic debate over the tax surcharge from mid-1967 to mid-1968. International financial crises followed one on another. Demand became excessive. The tax surcharge of mid-1968, which Congress voted, finally restored some fiscal order.

The impact of the federal budget on the economy in the 1960's can be measured crudely by the high employment budget surplus —an estimate of the surplus that the budget would produce if the economy were at full employment and producing revenues accordingly. The excessively restrictive policies of the 1950's had raised the

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full employment budget surplus to about $13 billion in 1960. Increased expenditures to fight recession, the military buildup over the Berlin crisis, and the investment credit and depreciation reform lowered the surplus to about $6½ billion in 1962. Delay in tax reduction and a slowdown in expenditure increases raised the surplus once more, reaching an $11 billion peak at the end of 1963.

The tax cuts, and the increases in spending, caused an enormous swing in the federal budget. By the beginning of 1967, the full employment budget showed a deficit of $12 billion—a welcome stimulus during the slowdown; but its deepening to $15 billion by mid-1968 was a disaster. Once the tax surcharge was passed and expenditure restraint became effective, the swing in the opposite direction was equally massive. By the second quarter of 1969 the high employment surplus approached $10 billion again. No wonder that the economy got rather out of hand, and now faces a period of slow growth.

What judgment can be passed about discretionary policy in the light of this record?

First, while the necessary alternative model simulations have not been done, and so answers must remain qualitative at best, the record of the 1960's seems to repeat the verdict of the 1950's.[1] Discretionary policy did harm as well as good. The policy proposed by the Committee for Economic Development in 1947, if it had been followed, would have done better. The CED recommended that the government maintain a small full employment surplus in its budget, and normally eschew the attempt to pursue a more ambitious, discretionary stabilization policy. The CED policy would have avoided the excessive full employment surpluses in the late 1950's and the early 1960's, the swings which led to the re-emergence of a very large surplus in 1963, and it would have forced the financing of the Vietnam war by current taxes. The Great Society programs still could have been financed out of the increase in full employment revenues during a period of rapid growth.

Second, it is evident that the major movements in the full employment surplus were not the result of deliberate stabilization policy. The big swings were due to exogenous events: i.e., the Vietnam war and the inability of the political process to make revenues respond to swings in expenditures. Even if the government had abandoned discretionary policy altogether, and sought to maintain a steady full employment balance of small surplus, the same political difficulties would have gotten in the way. Taxes would have had to be raised. It is likely that the political process would have failed to execute the CED policy, just as it failed to carry out a rational discretionary policy.

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[1]For analysis supporting this view for the earlier period, see my paper, "The Tax Structure and the Functioning of the Economy," *Proceedings of the National Tax Association*, 1962.

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The private-public mix

In the 1960's, expenditures by government rose at a substantially higher rate than the gross national product. The total outlays (on national income account) of all levels of government were 27.1 per cent on the GNP in 1960; by 1969, the figure rose to 31.4 per cent. The outlays of states and localities rose from 9.9 per cent to 13.1 per cent of GNP; federal outlays rose from 18.5 to 20.5 per cent.

This increase in part represents the Vietnam war, which absorbed about 3 per cent of GNP, some of it at the expense of other defense outlays. Most of the remainder was due to the growth of public activities in response to a rising population and to slow productivity growth of government service activities. But a major reason for the rise of government spending was the Great Society programs enacted from 1964 to 1966.

It is important to understand how this change in the public-private mix came about. So long as the issue was posed in Galbraithian terms—public versus private spending—the Congress did not respond. The Great Society programs were made possible by the large spurt in the growth rate from 1964 to 1966. Public spending came out of economic growth, not out of private spending.

These are the summary figures: in 1964, before the Great Society programs, the federal government collected $113 billion and spent $119 billion, producing a $6 billion deficit. By 1968, following the substantial tax reductions, revenues were up to $154 billion, a rise of $41 billion, expenditures were up to $179 billion, a rise of $60 billion. As a result, the $6 billion budget deficit rose to $25 billion. What happened is clear enough: military spending, mainly for Vietnam, rose by $27 billion. Spending on education at the federal level rose from $2 to $7 billion; on health, from $2 to $10 billion; and the total of all other fields, including Social Security, agriculture, urban affairs, and the old-line programs, went up from $61 to $81 billion.

Thus, during the period of the Great Society legislation, there was plenty of spending for old and new programs, civilian and military. Economic growth produced the revenues, though in the end we did stumble into an enormous deficit.

Monetary policy in the 1960's

Because human beings are fallible and policymakers all over Washington are subject to common tides of opinion and politics, the record of monetary policy has similarities to fiscal policy. Until 1965, monetary policy accommodated the gradual recovery to full employment, while interest rates remained fairly stable. One might argue that interest rates should have risen as the economy moved toward full employment, but one should also remember that interest

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rates were already high at the beginning of the decade because of the excessively restrictive monetary policies of 1959.

The monetary school of economists, led by Milton Friedman, claims that the recovery to full employment was really due to a good expansion of the money supply, perhaps prompted by the need to finance the budget deficits. The theoretical debate about the relative importance of fiscal and monetary policy is not likely to be settled here; but one can observe a striking contrast for the period under review. The rhythm of the economy seemed to respond to changes in fiscal policy. Unemployment stayed high so long as the budget aimed for large high employment surpluses. It fell after the tax cut of 1964. The increase in the broad money supply was fairly steady, both in the period of high level stagnation and during full recovery. If easy money alone sufficed, full employment should have come more quickly.[2]

From 1965 on, the Federal Reserve Board no longer fully accommodated the economic growth, and interest rates began to rise. With the benefit of hindsight about the war, the federal deficit, the capital goods boom, and the inflation, it is now evident that monetary policy should have become tougher earlier. Further monetary policy was too aggressive during the 1967 slowdown, and if ever there was a case of overkill, the antirecession fiscal and monetary policies of 1967 were an example. In the summer of 1968, monetary policy eased too quickly after the passage of the tax surcharge, and the authorities have been struggling ever since to bring the banking system and inflation under control.

The monetary theorists sing a siren song which says that if money supply is expanded at a constant rate, we would free ourselves of the fallibility of human judgment about the timing of restricting or loosening the amount of money in response to the economic cycle. There is little doubt that we have overmanaged money, perhaps never more so than during the extreme restraint of 1969-70. But there are hurdles on the way to a more stable policy: if it really is the money supply that is to be regulated, there had better be agreement on the figures. The record of the money supply for the first half of 1969 has been rewritten, as it was for several other crucial periods. Who would rest a policy on so weak a statistical reed? Further, it is difficult to define a "neutral" policy. Structural changes in the financial system give different growth trends to the various monetary magnitudes.

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[2]For the statistically inclined reader, let me add a few regression results on this point. For the period 1961 to 1965, correlations of quarterly data, utilizing polynomial distributed lags of third degree, four quarters, constrained to zero at the remote end show the following: the unemployment rate on the Full Employment Surplus: .82; on the rate of increase of the money supply: .64. The results are not as clear cut for other periods; but the first half of the 1960's does seem to have been fiscal policy's day.

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There has been little study of the quantitative relationships between the various monetary measures, explaining the differences in the growth of such variables as unborrowed reserves, the narrow money supply, the broad money supply, the monetary base, total bank credit, bank loans, total credit in the economy, etc. Until this work is done, adoption of any rule applicable to one concept will simply convert the present disputes into a quarrel about the selection and care of statistics.

The level of interest rates is also an indicator of monetary policy, and to me still the most unambiguous. But it is evident from experience that a stable interest rate is not a neutral policy. Interest rates should rise and fall with the business cycle. Indeed, a stable interest rate policy is probably significantly destabilizing for the economy. Thus, while interest movements are a useful gauge, they do not provide a simple rule which policy can follow.

The guidepost episode

By the end of the 1950's the need to reconcile full employment and price stability was widely recognized. The new administration, building on earlier *Economic Reports,* established "Guideposts for Wage-Price Stability." At first the guideposts only asserted some rather bland principles about price and wage behavior which a competitive economy would achieve on its own. It reminded labor that wage increases beyond productivity served mainly to raise prices; it reminded business that price increases beyond trend costs raised profits only temporarily. But until January 1966, when the guideposts were breached by the New York subway settlement, the administration had pursued an active policy of seeking to hold settlements close to the productivity rate.

The guidepost policies must be understood in the context of their day. The economy was moving toward full employment; industrial operating rates were rising. Productivity was advancing rapidly and wage demands were predicated on stable consumer prices. The longer the stable costs and prices could be preserved, the closer the economy could come to full employment without stumbling into the inflationary difficulties which had haunted us in the mid-1950's.

In their heyday, in 1964-66, the guideposts were a major element of government policy. Government spending programs, fair labor standards proposals, minerals stockpile policy, civil service pay, agricultural policy, and protective measures for specific industries both internal and at the frontier, were examined, at the President's direction, for their effect on cost-price stability. This probably was the first time in history that an administration examined its policy proposals fully from the objective of price stability.

In addition, the guideposts partially reoriented the usual govern-

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ment interventions in collective bargaining. Settlement of industrial conflicts was not an objective by itself but was coordinate with cost stability. For some time, at least, a Democratic government modified its traditional role of urging management to settle for large increases in order to restore industrial harmony. On the price side, presidential intervention slowed down the increases of some highly visible basic materials and a few final products.

Did these policies have any effect? Wage equations which explain other years of the postwar period fail during the guidepost years. To be sure, other explanations have been found for the extraordinarily low wage increases of 1963-66, but they are not totally convincing. Without claiming statistical proof, I would evaluate the episode as prolonging the virtuous circle of high productivity growth, stable costs, and stable price expectations by some months, and slowing the pickup of the price-wage spiral.

The guidepost policies were politically very difficult. Every time the president reduced a government program, intervened in a labor dispute, rolled back a price, let goods in from abroad, or made a release from the stockpile, he trod on sensitive toes. In due time, the affected industries sought retribution through the political process. Only a president elected by an enormous majority and commanding firm control over the Congress could withstand the politicking of industries, which President Johnson did.

As the Vietnam war escalated and the president's popularity began to fade, the authority of the guidepost policies shrank. When the president lost his command over the Congress in the 1966 elections, the most active phase of guidepost policies drew to a close, though there were some successful interventions as late as the summer of 1968.

There has been criticism of the guideposts as violating the principles of a free market economy. These criticisms are misplaced. The markets in our economy are relatively free compared to other economies; but many industries benefit from government programs, from government purchases, government-enforced production controls, import restrictions and tariff, artificial reductions of supply through stockpile policies, and so on. Similarly, the strength of labor unions is immensely aided not only by the basic laws which redress the balance between employer and worker, but also by the Davis-Bacon Act which strengthens the grip of the construction unions, Walsh-Healey, and so on. We saw in the opening months of 1969 that the government cannot shelve all its powers to influence wage and price decisions. The absence of guidepost policies does not make the government neutral.

The guideposts were swept away in a wave of excess demand. The present administration is wise to seek to attempt to limit the growth of demand through restrictive monetary and fiscal policies. At this

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stage of inflation there is no other way to bring prices back under control. The present vigorous policies of anti-trust and the reorganization of human investment programs will ultimately yield rewards in price stability as well. The job of resisting textile quotas, of easing oil import quotas, and of making sure that the government promotes rather than hurts price stability in its detailed decisions, still needs doing, however. There is no point in confusing these matters with vague talk of market ideology.

The guidepost episode and the recent inflationary explosion leave a nagging question: is the inflationary bias of the economy excessive at a 4 per cent unemployment rate, and does the rate of inflation inevitably worsen at full employment? The United States has never had uninterrupted prosperity before. Now that we have unlocked the secret, are we unable to use it because we do not know how to live with full employment?

Some lessons for the 1970's

What should we have learned? What mistakes have we no right to repeat? And where is the new ground that should be broken? A review of the predictions made at the beginning of this decade indicates that one cannot anticipate what will be the dominant problems. In 1960 no one thought about the Vietnam war or appreciated that the inequality of economic opportunity and disparities between black and white would become the central social problem. The impact of an advancing economy on the physical environment was not totally a surprise, but was far down the agenda of the decade. Even such traditional items as the deterioration of the cities, the improvement of health and education, housing, and rural opportunity had little specificity ten years ago. So don't expect much help here in pinpointing the major problems of the 1970's even within the area of economic performance.

Nonetheless we owe it to ourselves to attempt to distill a few points from the review of the past period.

(1) The natural rate of growth of the economy for the 1970's exceeds 4 per cent and we should judge economic performance accordingly. The growth of the labor force accelerated in the mid-1960's and will remain at a high rate. The advance of technology gives every sign of remaining very rapid. The current high rate of growth of the capital stock indicates the prospect of a natural rate of growth at least as great as in the 1960's.

We will begin the decade with a very slow growth year. The overfull employment of recent months will be converted into a small gap between actual and potential output in 1970. If we focus economic policy exclusively on fighting inflation, and if the fight on inflation is confined to the strictly classical medicine, we condemn ourselves

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to several years of slow growth and the development of a considerable gap between actual and potential output.

(2) The economy still seems unable to reconcile full employment with price stability. The need for structural changes to improve the competitiveness and flexibility of markets and to minimize the harm of government protectionist policies remains as strong as ever. Government machinery could be strengthened for these pursuits.

(3) The trend cycle in the private economy will be in an upswing phase at the beginning of the decade. While government policy may temporarily slow the conversion of fundamental strength into economic activity, rapid family formation with the resultant need for housing and durables will keep the underlying tone of the private economy strong. This is in sharp contrast to the beginnings of the 1960's.

(4) Fiscal and monetary policies should avoid the extreme swings which have characterized them in the last 20 years. Very full employment surpluses and deficits have been mistakes without exception. Periods of extreme advance or no advance in the money supply have been mistakes without exception.

(5) The informed public finally understands the question of priorities of resource use. The searching examination of our military budget and the attempt to determine the economic costs of our foreign policy commitments contain the promise of a more rational approach to resource allocation in the public sector.

(6) Economic performance is increasingly judged by its ability to meet the social and environmental goals of the society. The 1960's have shown that good macro-performance is a necessary but not a sufficient condition for adequate social progress. The realization that the resources are available may well have heightened the impatience of the black and the young with our halting efforts. The systematic changes in the private and public sector necessary to assure adequate social progress and halt deterioration of the environment appear to be the main challenges to economic policy for the 1970's. But then again, the main tasks may prove to be something else; by 1980 we will know.

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How shall we finance higher education?

MICHAEL CLURMAN

HIGHER education in the United States today is richer than ever before in its history. Faculty salaries have been rising faster in the last ten years than wages and salaries generally; and undergraduates have an ease of access to expensive equipment undreamed of fifteen years ago. At the same time, we hear loud laments, from even our richest private universities, that they are increasingly hard pressed and that unless large additional sources of aid are uncovered in the future they will be in danger of a severe deterioration in quality if not total collapse. In order to stave off such disaster, it is argued, the federal government must embark on expanded programs of institutional aid.

The paradox is only apparent, as we shall see, and the financial difficulties are as real as the prosperity. What I shall attempt to argue is that programs of *institutional aid* are an inappropriate response to these financial difficulties and indeed might only succeed in aggravating them. I will also explain why I believe programs of *student aid* to be better suited to the stabilization of university finance and more consistent with the nation's educational objectives.

To see why institutional aid will not solve these financial difficulties, it is necessary first to understand the peculiar circumstances under which our universities can find themselves simultaneously in a condition of unparalleled prosperity and in sharp financial straits. The most fundamental of these circumstances is that, in an economy

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in which average labor productivity advances at an inexorable 3 per cent per year, higher education is an industry in which dramatic economies in capital and labor inputs per student are almost unknown. Sectors of the economy in which such economies are not feasible are nevertheless forced to increase the level of wages and salaries at this rate or else face the prospect of a rapid decrease in the quality of labor available to them.

In fact, however, costs per student have increased even faster than one would expect from such competitive pressure. Faculty salaries have not only maintained their relative position, but have rapidly improved it. In 1965-1966, faculty salaries were 152 per cent of their 1957-58 level. In contrast, manufacturing wages increased to only 132 per cent, and retail wages to only 117 per cent, of their respective 1957-58 levels. The same inflow of money from government, private donors, foundations, and tuition fees which has made this rapid rise in faculty salaries possible has also resulted in a more expensive conception of what is necessary for a "properly equipped" university. Computers and other equipment which might previously have been considered a luxury are now a necessity for top-flight institutions. All this has meant that *expenditures per student at our major private universities have been increasing at a rate of over 8 per cent per year* from 1959-60 to 1965-66.

To the extent that the financial troubles of higher education today consist simply in an inability to increase expenditures as rapidly in the future as they have in the past, we may not be faced with a social problem at all, but rather with a perfectly normal and even desirable state of affairs. After all, society has made no commitment perpetually to increase the relative economic position of college professors. Taking into account the extended vacations received by the academic profession, it is doubtful that faculty salaries are any lower than nonacademic salaries, and it is even possible that they are higher. Academic departments rarely are worried by the possibility that a faculty member will be permanently lured away to nonacademic employment. (From 1954 to 1964, the net migration of Ph.D.'s out of academic life was almost zero.) They *are* afraid of losing a prized colleague to another university, but this is a symptom of fierce competitive bidding and not of the university's inadequate resources.

Nor is there any evidence that further increases in the relative economic position of college professors are necessary to ensure an adequate supply of new Ph.D.'s for the future. Projection of past trends indicates that enough new Ph.D.'s will enter college teaching in the 1970's to fill all newly-created positions, and that enough will be "left over" to increase the proportion of Ph.D.'s on college and university faculties at a very respectable rate.

The producers of any economic good can always think of productive ways in which they could use a great many more of society's

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scarce resources, but there is reason to believe that the financial problems of higher education represent something more than an attempt by deans and presidents to persuade society to devote a larger share of its resources to the academy. Rather than any general poverty in the higher-educational sector as a whole, *it is the intense competition for academic prestige and distinction among the various colleges and universities which accounts for the financial insecurity experienced by so many institutions of higher learning.* These competitive strains are not likely to be affected much even by relatively large amounts of institutional aid. Indeed, in the context of the dual price system which currently operates within American higher education, these problems are as likely to be aggravated as to be alleviated by such aid.

The dual price system

A dual price system exists whenever similar products are sold for different prices. Clearly this is the case with our system of higher education. Public colleges and universities receive heavy subsidies from public tax revenues, while our private institutions receive much smaller public subsidies—and those subsidies which they do receive are generally available to public institutions as well. The result, of course, is that tuition fees in private institutions are much higher than those in public institutions. And the gap between the two has been growing. From 1928 to 1956, the ratio of private to public school tuition fluctuated within the narrow range between 1.52 and 1.65, but in the decade following 1956 this ratio increased steadily, until in 1966 it reached the level of 2.07. Tuition charges at private colleges and universities have been increasing at a rate of about 5 or 6 per cent per year since 1958.

If a product is sold for two different prices, then the producer of the higher-priced brand had better find some way to differentiate his brand from his competitor's. It is true that private colleges are somewhat more immune to this imperative than other economic enterprises because higher education is a rationed commodity for which demand exceeds supply at prevailing prices. Thus, even if the product offered by public and private colleges were identical, demand for private-college education would not be zero. But if private institutions wish to attract their share of the best students, as they clearly do, then they must find some special appeal to offset their higher tuitions. Traditionally, private higher education has met this need in one of three ways: (1) they offer a religious affiliation or training not available at public institutions; (2) they offer a small, intimate liberal arts education; or (3) they offer a high-cost, high-quality education to an extremely select body of students.

As for religious affiliation, the trend of the last fifty years has

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been in the direction of drastically diminishing its influence on the substance of a college education. This is due largely to the rising power of the academic departments and disciplines over curriculum. It is difficult to believe that this decline can or will be halted because no one seems to have much idea of what a specifically religious approach to most academic subjects would be.

It may be that the private sector has something of an advantage in the field of small, high-quality liberal arts programs. Only 33 per cent of full-time students in four-year private institutions are in universities—i.e., institutions that combine undergraduate and graduate education—as opposed to 56 per cent in the public sector. Professors and students who are attracted by the flexibility of small undergraduate colleges are also likely to be attracted by their autonomy. Yet it is far from clear that these advantages will offset really large tuition gaps; and even if they could, the private liberal arts college is not of itself likely to guarantee for the private sector a significant place in the mainstream of American higher education. Positions of prestige in academic life are increasingly associated with publication of distinguished work. A graduate program provides the most favorable arena for research which leads to such publication, and only universities have such programs and the facilities and money that go with them. Inevitably, the most capable new Ph.D.'s head for the large and medium-sized universities, which then are able to secure most of the research contracts, top students, and prestige. If private higher education is to be restricted to colleges providing a small, intimate, liberal arts education, then the private sector will assume an increasingly peripheral role.

The best way in which the private sector can guarantee that it will attract at least its share of the best students and faculty is by offering a high-cost, high-quality education to an extremely select group of students. As long as private institutions spend more per student than their competitors in the public sector they will continue to play a central role at the forefront of American higher education. As recently as 1963-64, all 8 institutions which received an "A" rating from the AAUP on average and minimum faculty pay scales were in the private sector. Of the "leading universities" designated by the American Council on Education in the fields of engineering, humanities, social sciences, biological sciences, and physical sciences, from 56 per cent to 78 per cent were in the private sector, depending on the specific field in question.

Considering its limited access to tax revenues, the private sector has been surprisingly successful not only in maintaining but also in widening its edge over public institutions in expenditures per student. In the 1950's the private universities took the lead in bidding up faculty salaries. A slight decline in the proportion of faculty with Ph.D.'s from 1936-66 was borne by public institutions.

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In general, it appears that the improved relative status of private higher education reflects a decision to give academic excellence a higher priority than increased enrollments. Thus, while the proportion of total income going to the private sector of higher education declined slightly (from 45 per cent to 44 per cent) over the period 1959-1965, the proportion of students enrolled in private four-year institutions declined more sharply (from 45 per cent to 38 per cent). The most plausible explanation for these trends is that public and private institutions are responding to a different set of pressures by creating a different set of institutional priorities. Public schools frequently experience sharp legislative pressure to admit all qualified high school graduates even at the cost of some decrease in the quality of instruction. Private institutions have no comparable pressures to expand enrollments, but in view of the ominously widening tuition gap they do have a vital interest in making sure that their ability to attract good students is unimpaired. Moreover, private school administrators know that a substantial share of their institutions' future income comes from alumni contributions. Today's students are tomorrow's alumni, and today's top high school students have the best prospects of becoming tomorrow's well-to-do contributors. If the ability to attract the best high school graduates is lost, it may be the beginning of a vicious circle of decline.

In its present state, then, the system of higher education appears to possess all the elements necessary to assure a state of permanent financial instability. The private sector feels it must constantly widen the quality gap which it maintains over the public sector in order to preserve its ability to attract top students. And yet, if these private institutions do manage to raise the funds to widen their lead over the public institutions (as they apparently did up to 1965), the almost inevitable result is that public institutions begin to feel acutely dissatisfied with their deteriorating (relative) academic position. Public college administrators hardly relish the sight of their institutions being consigned to a permanent second-rate status!

This state of affairs explains how it is possible for higher education to be richer and more heavily subsidized than ever before in its history, paying higher salaries and receiving unprecedented amounts of income, and yet be showing signs of acute financial strain. Neither the wealth nor the distress is an illusion. The financial stress is a symptom of the competitive pressures which are built into the dual tuition system. It follows that increased funding for the higher educational sector as a whole is not necessarily an antidote to its distress. In fact, we might even expect more acute dissatisfaction during periods when rapid increases in the level of funding are causing changes to take place in the relative positions of different institutions.

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Problems of formula-writing

It should be clear by now that programs of institutional aid which propose to simply appropriate money and spread it around by means of a formula are an expensive and ineffective way to combat what is known in some academic circles as "the financial crisis in higher education." To any individual university president contemplating the financial problems facing his institution it must seem clear that a relatively modest federal appropriation will eliminate his small but ominous deficit and transform the financial condition of his university from poverty to solvency. But it does not by any means follow that comparable quantities of aid spread over all colleges and universities will improve the competitive position of any of them. The precise effect of institutional aid on the competitive position of any given institution depends on the formula by which the aid is distributed. A formula which gives great weight to enrollments will tend to narrow the gap between per-student expenditures in high and low-cost institutions. A formula based on the rate of increase of enrollments will tend to be more helpful to the rapidly expanding public sector than to private schools. Aid based on research contract awards, on the other hand, will tend to channel disproportionate amounts of money into the best and most expensive universities. By combining several of these criteria and weighting each properly, a formula could no doubt be devised which would cause the least number of changes in the present competitive structure of higher education. Distribution of aid which undermined the competitive position of any group of institutions would be avoided, and the formula writers would labor long and hard to give all institutions their "fair share." Political pressures would insure that they did so. The formula writers would be inundated with long and persuasive memoranda from various institutions seeking to demonstrate that (a) according to some ingeniously devised criterion they had received less than their "fair share" of the aid, and (b) their own continued prosperity was essential to a healthy system of higher education. This vocal constituency would see to it that the formula writers gave each institution just enough to maintain its traditional position in the academic hierarchy.

Now, it may not sound like a particularly awful arrangement to have a trained group of government experts distributing aid to our institutions of higher learning with an eye toward dividing the money up "equitably" among schools. Nevertheless I am convinced that, in addition to solving very few financial problems, aid by formula will politicize and bureaucratize decisions about resource allocation *within* higher education in a most unfortunate way, and that strengthening the role of the market through expanded programs of student aid will have superior educational and social results on virtually every major count.

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The functions of the market

One of the chief virtues of an unfettered market is that it is neither "fair" nor "equitable" in allocating resources among producers. A market makes no attempt to guarantee producers an indefinite continuation of their competitive position. On the contrary, by allowing consumers to vote their preferences, a market institutionalizes a continuing process of upheaval in competitive relationships; producer subsidies, in contrast, tend to preserve the status quo.

Should colleges and universities be large or small? Should they be in urban or rural areas? Should they alter the ratio of junior to senior faculty? Should classes be larger or smaller? Should more money be spent on libraries or computers? These and hundreds of other choices can of course be influenced by fiddling with the aid formulas. But it is precisely in this sort of fiddling with the details of resource allocation *within* sectors of an economy that centralized planning is a clumsy and ineffective device, lacking most of the subtlety and respect for small distinctions which makes a market such a sensitive mechanism for satisfying individual preferences.

Even if the formula writing were done by a brilliant and disinterested group of technicians, such centralized allocation of educational resources would not work very well. Suppose, for instance, that after careful research the formula writers conclude that higher education is characterized by increasing returns to scale—the larger the institution, the lower the cost of educating a college student. The appropriate policy conclusion would be that formulas should be written in such a way so as to encourage the consolidation of American colleges and universities into a small number of giant institutions. This example illustrates one of the classic pitfalls of dispensing with a market in micro-economic decisions concerning resource allocation. It is indeed desirable to maximize output per unit of input; and to do so is, by definition, to increase economic efficiency. But as anyone who remembers his college days must realize, *a small liberal arts college does not produce the same output as a large university.* The educational experience behind the degree may be very, very different. And if students are willing to pay for this difference out of their future incomes, then it is difficult to see why this is not at least as reasonable a consumer choice as the purchase of no-frost refrigerator.

Of course, our intelligent formula writers might agree on the value of small liberal arts colleges; but only a market can tell us *the precise value* of this product to the student, and only a market will tend to provide more of this product if—and only if—the increased value of the output, to the consumer, exceeds the increased cost.

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Distorting educational values

A closely related drawback of aid by formula is that where our goals are as complex as they are in higher education, it will be difficult to design a formula which encourages educational excellence without simultaneously encouraging an educational system which strives to excel partly in beating the formula. Formulas can occasionally be effective substitutes for a market where the criteria for success are simple and straightforward. We might expect, for instance, that we could base the salary of the manager of a state-owned electric trust on maximizing the output in kilowatt hours (within predetermined costs) of a nice, simple, indifferentiated product like electricity, and thereby get reasonably good results. But even areas which seem relatively simple become far more complex when one tries to divorce oneself too completely from market criteria on cost and value of output, as many a Soviet planner has found to his chagrin. Thus, when a Soviet production manager's bonus pay was made dependent on the total weight of nails produced, the Soviet economy found itself with an acute shortage of little nails. When the pay of a hydroelectric manager was made partially dependent on how little of his own hydroelectric power he used, planners found that hydroelectric station managers were building their own inefficient gasoline generators just to supply the needs of the dam complex.

Yet producing nails and electric power is simple compared with our complex and often intangible objectives in producing higher education. We want education to maximize the contribution individuals can make to national income, the present enjoyment students derive from their education, and the future satisfaction which citizens obtain from having had a college education. The decisions required of a college administrator who wishes to maximize the value of even one of these three "outputs" clearly are numerous and complex. To maximize the total value of *all* higher educational outputs (while keeping within some cost constraint) is an immensely difficult task which can only be approximated by a painstaking process of trial and error over a period of time.

But a formula can only measure an administrator's success using a few relatively crude measures of output or input (e.g. enrollments, expenditures, degrees granted, or research contract awards). Because the criteria for maximizing income from the formula are necessarily far simpler than the task of maximizing the satisfaction of students, it is always possible to make educational decisions which increase government aid without improving educational quality.

To illustrate this point let us take a brief look at the probable effects which the formula contained in the Miller Bill might be expected to have on educational decision making. This bill was introduced in both the 89th and 90th Congresses and is probably a

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fairly typical example of what we can expect an institutional aid formula to be like. The Miller Bill authorizes $150 million dollars to be distributed among various colleges and universities according to a three-part formula. Fifty million would be distributed among the different institutions based on each institution's share of the total number of science credit hours taught in its state. (The $50 million is first divided among the states based on each state's proportion of the nation's high school graduates.) A second $50 million would be awarded to institutions based on the value of research project awards from three federal agencies (NIH, OE, and NSF) with a limit of $300,000 on the amount which may go to any one institution. The third $50 million in the Miller Bill is allocated on the basis of earned master's and doctor's degrees in the sciences during the immediately previous three years.

College presidents have always been chosen partially for their excellent fund-raising ability. If the Miller Bill were passed, it seems likely that the college president of the future would have to become something of a wizard at juggling with academic standards in order to produce a university which would be tolerable from an educational point of view and would also give his university the highest possible rating in the formula. For instance, if the chairman of some department felt it would improve his program to institute some rigorous new requirement for the Ph.D., the president might be forced to veto the proposal on the ground that the federal subsidy lost as a result of the decrease in advanced degrees awarded would be more valuable than the improved educational standards resulting from the new rule. In addition, the Miller Bill threatens to enshrine the Ph.D. in public law. This would make it more difficult for individual universities to experiment with different sorts of degree programs at just the time when such experimentation is sorely needed.

Or, to take another example of more current concern, it is a widespread complaint among many undergraduates, particularly at our large public universities, that most faculty time and interest is lavished on graduate students and research and very little is left for the pedestrian task of teaching them. By allocating one-third of the aid on the basis of research contract awards, the Miller Bill might pressure universities to place an even heavier emphasis on research. This would happen even if the market value that students were willing to pay out of their future incomes for better teaching far exceeded any estimate of the value of the research.

The role of government

An alternative to aid by formula is to enhance the role of the market, so that consumers (in this case, students and their families)

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make the choices which allocate resources within higher education. Increasing the role of the market can be accomplished by some combination of the following three policies:

(1) Raise tuition fees so as to increase the proportion of a university's expenditures covered by such fees. This will result in making tuition fees perform the same function as any other price —i.e., induce the student to consume more expensive forms of higher education only if he expects equally valuable benefits. It will also give college administrators a powerful incentive to define his potential market and to provide the type of education which attracts such students.

(2) Make the proportion of educational expenditures covered by student charges more uniform among different institutions—i.e., close the existing gap on tuition fees between public and private universities. This would rid us of the present, absurd situation where students choose between competing institutions on the irrelevant basis of how heavily subsidized the institution happens to be.

(3) Make it possible for students to pay their college tuitions *and* living expenses out of their future incomes. This would not only end the bias against investment in education by poor citizens, but —unlike a student aid program consisting solely of grants—it would also give students an incentive to economize on educational expenditures in a way consistent with maximizing their own satisfaction.

A price system and a market should make it possible to decentralize decision-making about resource allocation; every college and university would be on its own. A program of guaranteed long-term loans will enable us to leave the trade-off between the cost and the quality of his education to the judgment of the individual student. If he feels the benefits from a more expensive education are worth a larger obligation to repay out of his future income, then he should borrow the money; otherwise, the scarce funds will go to someone who feels better able to make productive use of them.

A program of long-term student loans, to be as fair and as effective as possible, should allow the student to pool the risk that he will have to pay back his loan out of a relatively modest future income. Some good students are wary of incurring a large fixed debt at a time in their lives when their future income prospects are very uncertain. This pooling can be accomplished either by making the repayment obligation in the form of a fixed percentage of future income for each $1,000 borrowed, or, less radically, by incorporating certain partial loan forgiveness provisions for those whose incomes fall below a certain level. In addition, a loan program which seeks to maximize the college alternatives open to all students, at all income levels, should reduce to a minimum the burden of education expenditures which must be paid in cash. A really effective loan program should allow the student to borrow enough to pay most

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of his general living expenses *in addition* to the full cost of his tuition and fees.

None of this is to imply that the government has no role in American higher education except to guarantee loans, pool risks, and collect the repayments. First of all, we may want to give special encouragement to poor students to attend college. This could easily be accomplished by a program of Educational Opportunity Grants, which would give scholarships to poor students admitted to college and universities with the amount of help determined by family income.

A second legitimate justification for a government role in higher education concerns the "externalities" associated with the production of knowledge. Research and teaching result in the "production" of a host of ideas, some of which may stimulate a long chain of other discoveries which may finally lead to an economically useful innovation. But it is generally impossible to sell the idea at the beginning of the chain both because an idea has a way of quickly becoming common property and because its true value is generally only dimly perceived at first discovery. As a result, we can expect the true social benefits which flow from the production of knowledge to be far greater than the amount which it would be worthwhile for any private institution to invest in basic research. Thus, research —and particularly basic research—must be financed primarily by the government.

Education may also produce other external benefits such as making citizens into more tolerable neighbors, enhancing the viability of democratic government, etc. These external benefits, plus a general prejudice in favor of an enlightened citizenry, probably constitute an adequate justification for the nation to invest more in higher education than would be demanded by individual students borrowing funds at the market rate of interest. But adequate subsidies to the higher education sector of the economy can easily be worked into a comprehensive student aid package simply by making the terms of the grants more generous or by decreasing the interest rates on the student loans. Even a small reduction in the interest rate on a thirty or forty year loan would amount to a large subsidy and a large reduction in the cost to the student.

Externalities may occasionally provide a reasonable justification for selective intervention by the state in higher education. No doubt there are instances where society should subsidize one form of education more than another. Graduate education or instruction in the sciences might be thought to yield an especially high proportion of external benefits and these would justify special subsidies. But these subsidies can be provided simply by increasing the generosity of scholarship aid in these areas or by including partial loan forgiveness clauses associated with certain types of employment.

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Student aid is therefore a flexible instrument which can be used to fulfill the major public objectives (aside from supporting research) in higher education. Specifically, student aid can increase equality of opportunity, provide any desired level of subsidy to higher education, and provide differential subsidization for different types of education. But in the vast majority of educational decisions we have no reason to believe that any given alternative is more heavily loaded with external benefits than any other. In such situations, the most sensible course is to allow consumer choices to determine the allocation of resources within the higher educational sector. This can be done only by giving students the same ability to bid resources into the types of schools they want which consumers in other sectors of the economy enjoy. And this in turn implies that we embark on a policy of encouraging tuition charges to cover more nearly the full cost of higher education and adopting a well-thought-out program of student aid.

Advantages of student aid

A system of higher education financed in this way would have a number of advantages over the current system.

It would put an end to the differential subsidies now enjoyed by public institutions; as a result, all schools would compete for students on more nearly equal terms. Under the present system, public schools operate in a protected market under the umbrella of a huge tax subsidy. They offer free or low tuitions to students who live in the "right" city or state, and such students become a captive market. It is almost invariably the case that captive markets are worse served than free markets.

Raising public school tuitions and making large amounts of grant and loan money available to students will tend to increase the demand for private higher education. Increased demand will mean that private schools will be more able to increase their revenues by raising tuitions rapidly without losing their ability to attract good students. This should ensure the continued ability of private higher education to exist on a sound financial basis and will strengthen the autonomy and diversity of American colleges and universities.

A loan program will distribute the burden of financing higher education more equitably. It will render it unnecessary for parents of modest incomes to foot most of the bill for an expensive investment which will deliver its return over their children's entire working lifetime. This should remove a considerable source of anxiety from the financial plans of many middle income families. A loan program will also remove from students, with little parental financial support the burden of working at a poorly paying part-time job while pursuing their education. Even the relatively small numbers of students

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from poorer families who are admitted to higher educational institutions tend to have a disproportionately high dropout rate. Surely we should not wish to add to the handicaps imposed on students from poor families by forcing them to spend time on a menial job which more fortunate students use to pursue their studies. And surely it is an example of gross inefficiency in the workings of our capital markets when students who will soon be earning $10,000 per year are forced to eke out a minimal existence with the aid of a menial job paying $1.65 per hour.

It is quite possible that a sharp rise in tuitions combined with a large scale loan program could lead to a rise in demand for college education, particularly among poor high school graduates. Even if the loan program did not fully offset the effect of the higher tuitions, a program of grants aimed specifically at low income students whose decision about college attendance is particularly sensitive to cost changes would be more efficient in increasing demand than would an equivalent sum of money used to provide reduced tuitions for all.

The relatively slight obligation of students to pay for their education and the widespread student impression that offering a stimulating education is a low-priority goal in most schools tends to create a thoroughly unfortunate student attitude toward higher education. Many students have come to view their undergraduate years as a sojourn in a free but rather dull sanctuary.

This is precisely the wrong attitude on every count. Instead of viewing college as a lesser evil, a student should realize that a year in college is a costly business requiring labor and capital which could be employed productively elsewhere. If a student does not believe that he is receiving professional training or education which justifies this expense, he should feel free—indeed, he should be encouraged—to make better use of his time. A few years of work outside of school can often produce more serious students with more clearly defined academic or professional goals.

If we want students who value their education, it is also necessary that they see concrete evidence that providing a relevant, stimulating, and productive education is the central concern of college administrators and teachers. They must not have reason to believe that teaching is a peripheral matter in the affairs of a great university, only to be worried about in an administrator's spare time. In order to create a more desirable set of student attitudes, then, we must encourage students to pay the bulk of the direct costs of their education out of their future incomes and make the prosperity and survival of colleges and universities directly dependent on their ability to attract students in open competition in a free market.

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PROPOSALS AND IDEAS

Black Gold and Black Capitalism

ANTHONY H. PASCAL

Minority groups which have not achieved dominance of an industry or economic specialty have not made it in American society. The prominent role of the Jews in communications, entertainment and in the garment trade is obvious to the point of cliché. Greek restaurants, Chinese laundries, the concentration of Middle Eastern nationalities in the rug business—all form part of the same phenomenon. The produce business and construction in America have long had significant Italian influence and the mass media suggest that they are over-represented in organized crime. As for the Irish, their important role in the government of many cities, in the staffing of police forces and fire departments, may be declining as the group becomes increasingly indistinguishable from the larger population. But dominance was achievable when the position of the Irish required it; I hope to show that in fact this earlier dominance helped bring Irish-Americans to the point where it could be sloughed off in favor of superior opportunities.

Notice, however, the fate of minorities that have not obtained industrial enclaves or "turfs." With what industries are Poles identified? Or Slovenes? American Indians? Mexican Americans? And, the most crucial question, what is the turf of black Americans?

The tendency has been to regard the examples of ethnic concentration as casual accidents or as fascinating but essentially irrelevant curiosities in American social history. In fact, the ethnic dominance of particular industries or callings has been a central mechanism in launching new minorities into the mainstream of the economy and ultimately into viable positions in American society. Now that elaborate union rules, civil service regulations against patronage, and the occupation of attractive job turfs by earlier groups have closed off such opportunities to America's blacks, browns, and reds, where are they to go?

In this new department, we shall provide scholars and social critics with the occasional opportunity to "float" policy proposals that, though unconventional, are worthy of public notice. Most of them, we suppose, will either be shot down or vanish into the silence of outer space. But a few may survive their first exposure in these pages. And all, we trust, will provide our readers with a stimulus to rethinking our social policies—Eds.

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For blacks anyway, fields like professional sports and entertainment come immediately to mind. Later we shall investigate the real magnitude of opportunities offered in these fields compared to the need. Suffice it to say that in relative terms the opportunities provided are miniscule.

Yet there exists an important and dynamic American business with vast numbers of openings for proprietors and for skilled and semi-skilled labor. This industry has gross sales of $25 billion per year and employs 600,000 people; it is in a strategic position for facilitating forays into several other branches of the American economy. A carefully designed and financially feasible public program could convert it into a black economic turf. Before describing a plan for doing this, however, it might be useful to consider the reasons ethnic concentrations are worth encouraging and to review a spectrum of possible industrial targets.

A NUMBER of factors underlie the connection between ethnic concentration and economic success. Stark, crude nepotism stands in the forefront. The importance of the ability of a group to help its own, to favor a nephew or a neighbor's boy in filling a job ought not to be underestimated. In a field dominated by his own kind, in which small businesses and large are owned by his uncles or friends of his father, the "disadvantaged" young man has indeed an extra edge that compensates for those very disadvantages. Not only can he more easily obtain a job in an ethnic firm but they provide an environment in which he can learn the business. This process permits many to emerge eventually as new independent proprietors, ready in turn to provide unequal opportunities for the next generation of the group.

Jobs in such industries are not only easier to get for minority youth, they are also easier to keep. In them, majority behavior standards are less rigorously enforced. They provide incubators in which standards can be learned at a more tolerant pace. This semi-isolation must in the past have done much to build up the confidence of recently arrived groups, preparing to take the plunge into integration.

The very identifiability of the sectors which a group saw as its turf also added to communal self-confidence. Examples of success in the flesh with whom identification is possible contribute to the development of the ego and thus help direct ambition. Jerome Cavanagh or Julius Rosenwald are probably not so important as the local alderman or the proprietor of the neighborhood Fashion Shoppe in demonstrating success possibilities to young men just beginning, however modest that success may be. Neither should we underrate the influence of plentiful examples of nonsuccess that tend to strengthen expectation of failure in young men from less fortunate ethnic backgrounds.

A more amorphous kind of ethnic economic *elan* grows out of the recognition of sectoral dominance by the group itself and the confirmation of that recognition in the larger society. It forms part of our folk knowledge but is an aspect of social life often ignored by

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more sophisticated analysts. In short, there remain surprisingly durable economic lumps in the melting pot.

The severely disadvantaged minority groups—blacks, Mexican Americans, Indians—now articulate communal demands. Stated baldly, they ask less often for equal, merit-based individual access to the mainstream and more often for reparations to the group to compensate for past injuries inflicted. The important point is that in the past our society granted industrial semi-monopolies to ethnic minorities as an indirect but effective mechanism for eventual social integration. The process was always implicit and *de facto*—never legal or formally acknowledged. But granting of the rights to a turf helped interrupt the vicious circle of no-job-without-experience-and-no-experience-without-a-job. Now our minority problem is a color problem and somehow the mechanisms have broken down. We ought to think of the response to the communal demands of the new minorities, not as reparations, but as refurbishing the mechanisms. This will require deliberate public action.

I WOULD like at this point to turn to a consideration of the position of black Americans and of their turfs, current and potential. If we can devise methods for influencing the direction of black economic energy as among fields, how ought the field to be chosen?

To begin with public activity, the postal service presents a first and obvious possibility. But it begins to lose its strategic appeal when we note the generally moderate esteem in which mailmen are held and the inroads that automation is sure to make. The police/fire case is more intriguing. Because blacks have replaced the Irish of a hundred years ago as the preeminent urban minority, many will think it natural that they follow in the economic footsteps of their predecessors. I would hazard, however, that the declining importance of patronage and the growing role of labor unions in the protective service together make them more and more an occupation and less and less an industry, and it is an *industrial* foothold that is needed.

School teaching and social work have tended to be fields of Jewish concentration in many cities. Increasing numbers of blacks do enter these fields, which show many of the trappings of status not visible in the postal service. The status accorded is largely a function, though, of the high educational criteria of these professions, which means that encouraging more black concentration will be a lengthy and expensive process.

Conscious attempts to alter government hiring practices to favor certain ethnic applicants would in some ways be easier than achieving a similar change in private activity.[1] For one thing, it would be accelerating an existing trend. In 1960, for instance, 7 per cent of all noncollege teachers in the United States were black. In 1966

[1]The New York City government, for example, now gives a slight advantage to poverty area job applicants; it works something like the veterans' point preference in federal civil service examinations.

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the figure had climbed to 10 per cent. As educational attainment rises amongst the Negroes and as their big city political power grows along with their relative numbers, public sector opportunities will expand willy-nilly and some lines of functional concentration are bound to emerge.[2]

In looking for industrial targets in the private economy, these kinds of fortunate existing trends are less apparent, but political resistance—the desire to maintain an ethnic division of the spoils—recedes as a problem. The private sector represents the more attractive hunting ground for other reasons as well. Despite a half century of liberal rhetoric, and even after fifteen years of its Galbraithian variant, Americans really do consider private business more "American." A man who succeeds in business is considered to be good at what America is largely about. An ethnic group that succeeds may be mistrusted or envied but it will rarely be despised.

Food preparation and handling has traditionally engaged disproportionate numbers of blacks, mainly as employees, but to some extent as proprietors as well in restaurants and catering enterprises. The increasing use of franchise methods to rationalize the distribution and consumption of convenience foods opens some opportunities for organized ethnic-oriented intervention, but the persistent menial image of the industry and the substantial investment costs required by today's market probably make it a rather unattractive target.

Health is a second growth industry, and one in which black participation is steadily growing too. (In 1960, for example, 4 per cent of American health workers were black, while in 1966 7 per cent were.) But Negroes, of course, rather infrequently participate as physicians. They tend instead to be practical nurses, orderlies, and hospital workers and registering results in the more prestigious branches of this sector would take considerable time.

Show business and sports are fields that quickly come to mind when people think about Negro specialization. Most likely, these callings are relatively free of prejudice because in them measures of merit are much less ambiguous and this makes it more difficult to close careers to talent. Nevertheless they offer a decidedly limited avenue for achieving the kinds of gains we have been discussing. First of all, they employ relatively insignificant numbers of people. In 1963 there were 13.6 million blacks in the labor force. In the same year fewer than 9,000 people of *all* colors found employment in professional sports and only about 22,000 in all branches of show business. (For purposes of comparison, in middle income Chinese and Jewish neighborhoods as many as a quarter of male workers are proprietors and managers.) And athletes and performers, no matter how highly paid, are still employees, hired help. Negroes already work in many of the restaurants that Greeks own. Yet which group has the better claim to this turf?

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[2]No mention is made here of black concentration or dominance in the armed forces which is being increasingly discussed as a possible consequence of an all-volunteer military service. The political questions surrounding this possibility are of a different order from the ones discussed in this article.

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GHETTO economic development, often translated to mean general promotion of black business, receives increasing attention as a remedy, but has decided limitations. A large proportion of the businesses in the ghetto, as in any low income residential neighborhood, consist of such marginal retail enterprises as lunch counters, dry cleaners, pawn shops, and small groceries. Many of them survive only because the white Moms and Pops who run them seem willing to accept a rather meager monetary return—particularly if calculated on an hourly basis—in exchange for the purported joys of independent proprietorship. "Communalizing" these businesses and turning them over to "soul brothers" will not therefore produce instant black capitalists. Formal proprietorship is not the same as full scale entrepreneurship.

The more prosperous and stable ghetto businesses—the furniture stores, large clothiers, supermarkets—are often chain operations and almost always complex enterprises in which economic success depends on skills in buying, inventory and personnel management, advertising, finance, etc.[3] Preventing former owners or the corporations which operate chain stores from competing with the fledgling black businessmen would also raise problems. A period of relative inefficiency during which the newly installed owners learned to operate their enterprises could result in costly losses in sales and patronage. There is, after all, an upper boundary on whatever preference black consumers have for dealing with black firms.

Implementation problems also loom large. To mount the assistance effort necessary to compensate for the initial disadvantage of inexperienced proprietors and managers in myriad lines of quite complicated business would be a gargantuan task for any bureaucracy. The experience of the foreign aid program in this kind of endeavor provides few grounds for optimism.

The most important objection to the ghetto business development schemes, of course, is that they strengthen *apartheid.* This approach does not lead to the establishment of a turf from which the rest of society can be faced with strength and confidence. It promises a patchwork of autarchic Bantustans rather than a system of mutually beneficial exchanges and interactions. That blacks need a sectoral base is, it seems to me, self-evident. As black capitalists emerge, many will choose businesses that serve predominantly Negro markets. But the public policy ought to be directed toward forcing an arrangement which represents a black urban version of Indian reservations is obviously misguided, certainly inefficient, and, fortunately, probably futile.

WHAT we require then is a sector which presents numerous opportunities for individual enterprise, which provides services needed by all groups in the society in all phases of the business cycle, a

[3]That success depends as well on the ability to exploit ignorant, immobile customers may or may not be true. If it is, exploitation is unlikely to disappear as the color of entrepreneurs changes.

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sector where neither the cost of establishing a business nor the length of time necessary to learn it are inordinate. Finally the sector must encompass economic activities respected by the wider society.

An industry fitting this bill of requirements exists: gasoline service stations. There are about 220,000 of them in the United States today. They generate, as pointed out, more than $25 billion in annual sales. Almost all of them are operated by individual proprietors who lease the premises from the oil company whose products they merchandise. Gas stations employ about 400,000 people in addition to the proprietors and have annual payrolls of almost $2 billion.

The cost to the proprietor of entering the gas station business is surprisingly low. To begin operations in a new station or to take over a going business in even the largest cities requires an investment of no more than about $6,000. The initial expenses consist of purchasing an inventory of gasoline, oil, tires, batteries, and other accessories and depositing several months' rent in advance. The proprietor can then look forward to a net income of about $1000 per month in an average location.

Suppose the federal government or a group of foundations became serious about helping establish a turf for blacks in the American economy. A billion dollars would go a very long way. Even if one had to pay as much as $10,000 to persuade present owners to sell, the psychological and economic impact of the ownership transfer would be enormous. (It is crucial that operating rights be purchased from existing lease holders on a voluntary basis and not taken by eminent domain. It is well worth the extra cost to prevent additional exacerbation of racial relations.) The billion dollars in this case would result in 100,000 black-owned and black-operated service stations, which is almost half of all those existing—two thirds if the program were restricted to the northern states only.[4]

By way of comparison, the federal government currently spends about twice this amount annually on lunar manned space flights and about the same amount on the river and harbors pork barrel and on the post office subsidy that largely benefits "junk" mailers. The billion dollar cost of Black Gold, of course, need not be obligated within any one year. The program, in fact, would probably work better if spread over four or five years. And the initial costs might be mostly recovered if the transfers were treated as loans rather than gifts, the beneficiaries eventually repaying the government investment out of their earnings. By restricting beneficiaries to groups living in certain neighborhoods we could achieve a virtual ethnic precondition for the receipt of benefits and still avoid any constitutional ban on racial tests for participation. I see no reason why recipients of the station operation grants or loans could not be drawn wholly from designated poverty areas of cities in the same fashion as enrollees in government skill training programs are.

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[4]Knowledgeable observers of the industry estimate that more than 25 per cent of all service station leases change hands every year. This high natural turnover rate would greatly facilitate the conversion of the sector into a black business base.

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The locations of the gas stations, on the other hand, should not be confined to the ghetto. The scheme achieves its ends partly through making necessary a continuous series of ordinary commercial interchanges between blacks and whites. It is important for whites to see black proprietors and for blacks to observe whites patronizing black-owned businesses.

If the average entry cost were less than $10,000, the remainder of the billion could be used to set up assistance programs to help phase-in the 100,000 fledgling proprietors (though, in any case, some funds should be set aside for this purpose). Training operators in auto maintenance, bookkeeping, employee relations, and purchasing should not be a terribly expensive proposition. Such skills, for example, must be possessed by tens of thousands of retired men whose teaching talents could be mobilized at small cost and added to the training resources which the oil companies now provide to new operators.

The long run future of service stations would seem to me fairly assured. Even if some combination of technological progress and resistance to air pollution succeeded in causing a shift away from internal combustion engines, the nation would still need substantial facilities for servicing vehicles. Steam engines require kerosene, battery-driven cars need recharging. Service stations are the natural inheritors of these functions. That public transit will replace privately owned vehicles is less and less likely with the passage of years and the growth of personal income, despite the fervent desires of city planners.

CLEARLY, there remain details which need attention in the implementation of such a scheme. Among the knottiest problems would no doubt be selection of operators. Because the program seeks ends wider than poverty alleviation, and because the potential for successfully running a business is probably correlated with current economic status, eligibility for inclusion in the program should extend well into the black middle income categories. Then, people with some experience in the automobile-servicing industry ought perhaps to be favored. A record of past economic steadiness and stability would be desirable, but so would some indication of ambition and independence, associated often amongst the disadvantaged with an uneven work history.

What is really important, in any case, is to establish a formula for evaluating applications for operation that blends the prospects for success, which the oil companies certainly know how to appraise, and the deservingness of applicants as reflected in personal characteristics, which government program administrators are accustomed to judging. The suspicion of favoritism or kickbacks in the award of operators' rights would pose a much greater threat to the program than would even the rigid use of a standardized formula.

How could we insure against a merely temporary or token color switch in the gas station industry? That is, how could we discourage beneficiaries from selling the rights, thereby exchanging the expected

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long run social as well as personal benefits for certain, immediate individual gain? There is no perfect defense against what would have to be considered a wholly understandable response on the part of some recipients, but there are some partial safeguards. We could, for example, make the operating rights legally untransferable, except by the agency initially assigning them, for a period, say, of five years. (If the intention is truly to integrate blacks in the economic system, then we want the rights of ownership to be full and complete, therefore freely disposable, after such a transitional period.) The legal cloud on an unauthorized transfer of operating rights would surely act as a discouraging factor. An additional safeguard would involve instituting a penalty in an amount sufficient to recover the public subsidy, or more, to either the transferor or transferee, in cases of unapproved transfers. Other safeguards could no doubt be devised.

Concentrated experience by black people in the gas station business should be expected to lead eventually into associated lines. For instance, there are about 30,000 auto supply establishments in the country, accounting for over one half billion dollars in annual sales. Black ownership of car washes, car rental agencies, and auto dealerships would also become a lot more likely, at least for the sons of successful station operators, if not for the first generation. A substantial black position in the auto servicing business brings them to the strategic center of the American economy and, if we can believe writers of popular psychology, to the soul of American consumer consciousness. Thus, for a cost of less than a billion dollars we could achieve real "soul" here.

What about the effects on the oil industry? Might there not occur a temporary decline in sales and profits in some stations as an inexperienced group of operators is suddenly thrust into management? Yes, probably. How such losses are to be divided between taxpayers and the oil industry itself is a matter for political decision. There would appear no great difficulty in establishing government guarantees to the oil companies against any losses generated by the transition; on the other hand, many will argue that the taxpayers have been doing favors for the oil industry for decades through the depletion allowances and that it is now time the favors were returned.

FROM a number of perspectives the plan outlined here most closely resembles a piece of American social-economic legislation that reached its peak impact a hundred years ago in the Homestead Act. The intention then was to make a conditional gift of a certain kind of economic asset—title to publicly-held farm lands—in order to fulfill a complicated set of social objectives. And the program was successful in contributing to the settlement of the continent, the more even distribution of wealth, and the encouragement of family self-sufficiency. With the Black Gold plan the objectives to be satisfied are equally complicated. They include enhancing the dignity of black Americans, extending them a valuable stake in the system, and furthering long-run integration prospects. The economic assets

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to be used in achieving these contemporary aims are tailored to the goals themselves.

Converting 100,000 gas stations into a black economic turf seems feasible. The cost, $200-300 million per year (and even this is potentially recoverable), is less than we spend on urban renewal, and the payoff looks a lot bigger and a lot more equitable. The transition would not constitute an inordinate new strain on a bureaucracy already worn thin by the necessity to manage highly complex programs of still unproven validity—Community Action, Model Cities, Concentrated Employment. The accompanying technical assistance effort which would be required is straightforward and limited in duration.

The newly established Office of Minority Business Enterprise in the United States Department of Commerce seems to understand the potential of service stations for fulfilling the function the Office is charged with. But they consider gas stations to be interesting only because they are franchise operations and, recognizing them as a promising vehicle for widening entrepreneurial activity, they appear insensitive to the advantages of sectoral dominance that widespread black gas station proprietorship could represent. They appear also to be thinking in terms of black stations for black communities. In any case, federal activity does not extend beyond attempts to encourage and promote the idea of minority enterprise. Without the ability to provide financial assistance, the returns to exhortation are bound to be disappointingly low, even with respect to the less ambitious goal officially professed. Interestingly enough, OMBE has found that the oil companies are among the best industrial performers in granting opportunities to minority proprietors; currently Negroes, the Spanish-speaking, and American Indians own almost 6 per cent of all gas station leases.

Of course, it would be a lot more effective for the pride and income of blacks and for harmony in the whole society if we could overnight create 100,000 new black physicians—but we can't. Both self-doubt and prejudice are learned quite early in life. The fact that millions of children, black and white, could have constant and graphic evidence of the black domination of a necessary, ubiquitous, respectable, and, to the little boys at least, even glamorous industry, is perhaps the most attractive feature of the plan. If American history is any guide, the Black Gold plan will help bring about the day when the existence of 100,000 black doctors excites no particular comment.

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An Alternative to the Nixon Income Maintenance Plan

RICHARD ZECKHAUSER AND PETER SCHUCK

THE Nixon Administration proposal for a fundamental overhaul of the welfare system has generated heated controversy among the numerous interests concerned with poverty and related problems. The great bulk of the criticism leveled at the Nixon plan has focused on three of its facets: the adequacy of the federal guarantee level, its treatment of high-benefit states and cities, and the work requirement for mothers of school-age children.

Few observers, however, have directed their scrutiny to the questions of the impact of the Nixon plan on work incentives, and the relation between the Nixon plan's work incentive provisions and the efficacy of the plan generally. We shall concern ourselves exclusively with these questions for several reasons. First, work incentive provisions are at the core of any income maintenance scheme; they determine to a large extent its cost, its target population and its social philosophy. The second reason, derived from the first, is that the work incentive element of any such scheme is—and for the foreseeable future will continue to be—absolutely critical to its political acceptability to the American people.

It is true, of course, that the various elements of the Nixon plan (e.g., level of income guarantee, marginal tax rate on earned income, tax break-even point, target population, etc.), no less than those of income maintenance plans generally, are so intimately interconnected that altering any one element in effect alters the entire plan. Similarly, a given effect on, say, work incentives, may perhaps be obtained by manipulating non-work incentive elements of a plan. Nevertheless, we assume that the work incentive element is itself so salient to the utility and political feasibility of a plan that it may usefully be analyzed in isolation, taking the other elements of the plan as given.

The Nixon plan

Although the details of the Nixon plan are still subject to the legislative process, the general outlines of the plan are quite clear.

The authors wish to thank Milton Friedman for his helpful comments.

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Under the Nixon plan, the federal government will guarantee an income to every family. The guarantee would be $1600 for a family of four and would vary with family size.[1] Several factors are worth noting here:

(a) This is a *guarantee;* it establishes a floor beneath which state welfare assistance will not be permitted to sink. States must maintain their current level of benefits; the federal government, however, will assume 10 per cent of the cost of these benefits now paid by the states. In 30 states, the guarantee level is already exceeded by present benefit levels. In these states, therefore, the federal contribution will be increased only by an amount equal to 10 per cent of the present state contribution. In the remaining states, however, the federal government will supplement the existing state payments to the extent necessary to bring total benefits up to the guarantee level.

(b) The guarantee will not apply to an adult who is single (unless he is handicapped or aged) or to a married couple without children. It will, however, apply to the "working poor" whose annual income is less than $3920.

(c) The guarantee plan will replace the Aid for Dependent Children (ADC) program but will not replace the categorical programs, such as aid to the blind and aid to the permanently disabled.

(d) The guarantee is not designed to move family incomes above the federally-defined "poverty floor," which at present is over $3700 for a family of four.

The income guarantee is linked to a work incentive scheme. For those families covered by the guarantee who earn income,[2] the first $720 of such income would be received without reducing the guarantee level.[3] President Nixon emphasized that this $720 exclusion was inserted "to make up the costs of working and provide a strong advantage in holding a job" in contradistinction to the present system which "discourages the move from welfare to work by cutting benefits too fast and too much as earnings begin."

When the amount of earned income exceeds $720 per year (or a total annual income of $2320 for a family of four in low-benefit states where the $1600 federal floor is also a ceiling), the federal guarantee is automatically reduced $.50 for every $1 of earned income in excess of the "tax-free" $720. This scheme produces a tax break-even

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[1]It appears that beneficiaries under the Nixon plan may also be entitled to receive additional benefits under the food stamp program.

[2]According to Christopher Green, only 49 per cent of the income of the poor is labor income. Under the Nixon plan, unearned income, with some exceptions, will be treated the same as labor income with regard to the reduction of benefits. The one difference is that the $720 exclusion applies only to earned income.

[3]Theoretically, part of such families' earned income would remain subject to federal income tax. As a practical matter, however, statutory exemptions and deductions would protect most, if not all, of such income. In any event, the pending tax bill would diminish, if not end, the payment of federal income taxes by most people with income below the federally-prescribed poverty line. Such people would, however, remain subject to Social Security payroll taxes as well as state and local taxes. For the effect of these largely regressive taxes on the poor, see Joseph Pechman, "The Rich, The Poor, and the Taxes They Pay," *The Public Interest* (Fall, 1969).

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point of $3920 for a family of four; that is, a family of four with earned income of $3920 receives no benefit from the federal guarantee.

Furthermore, the Nixon plan permits a state to opt to reduce the work incentive by up to $.17 for every dollar earned, so that the family might retain only $.33 of every dollar earned in excess of the $720 "tax-free" base. Some states might exercise this option and thereby save state funds.

The problem of work incentives

The Nixon plan unquestionably is a vast improvement over the existing welfare system with respect to work incentives. To be sure, almost any plan would be, for the traditional means test is in effect a 100 per cent marginal tax on earnings; that is, for every dollar earned by the welfare recipient, his benefits are reduced by a dollar. Indeed, a greater disincentive to work can scarcely be imagined.[4] The Nixon plan instead imposes a positive marginal tax rate of 50 per cent on earned income where total income (guaranteed benefits plus earnings) is between $2320 and $3920. As noted above, states may opt to increase this marginal tax rate up to 67 per cent.

In order to assess the utility of this work incentive scheme, it is necessary to discuss the goals of work incentive policy generally, and the consequences of particular work incentive schemes. Apart from the political necessity of such a policy, at least two major social and economic purposes are served thereby. First, work incentives, by reducing labor force defections, integrate the employable poor into the larger society and enhance its and their economic vitality. Second, work incentives, by subjecting the employable poor to the motivating force of higher wages, permit the labor market to allocate workers efficiently among firms, industries and geographical areas.[5]

Virtually all of the income maintenance plans proposed in recent years contain a work incentive element based, as is the Nixon plan, upon a positive marginal tax (usually rather high) on earned income at low levels of earnings. Proponents of such schemes contend that only substantial positive marginal rates can (1) keep participation in the plan within reasonable limits by having a low tax break-even point, and (2) keep the cost of the plan for any given target population reasonably low. Thus, the editors of the *Yale Law Journal* note that "a program with near-zero tax rate . . . would cost over $150 billion a year if—as is likely—almost every family in the

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[4]In recognition of this, the 1967 Social Security amendments exempted the first $30 per month of earned income and one-third of the remainder. Moreover, the OEO recently funded a pilot project with fractional marginal tax rates in several New Jersey cities. New York City recently undertook a similar project. Data from these projects are not yet available.

[5]Of course, the second objective must be realized if the first is fulfilled, for while it may be necessary to motivate one to work in the first instance, it surely is unnecessary to further motivate him to work for higher wages.

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country elected to receive supplements.[6] On the other hand, a very high marginal rate would probably cause severe disincentives to work (particularly for low wage jobs which carry few nonfinancial rewards), and would seriously interfere with the labor market's allocation of workers by reducing workers' sensitivity to wage differentials. Experience with the 100 per cent marginal rate under the traditional ADC means test tends to confirm these fears.

In fact, relatively little is known about the effects on work incentives of positive marginal tax rates on earned income. Economic theory posits (1) that positive marginal tax rates produce a "substitution effect," i.e., they reduce the price of leisure relative to the price of work, and (2) that positive average tax rates produce an "income effect," i.e., they reduce the net compensation from work.

The resultant of these two effects, however, is not clear. If the "income effect" tends to induce people to work harder in order to make up for the reduced compensation and if this tendency outweighs the opposite tendency of the "substitution effect," positive tax rates on earnings may in fact enhance work incentives. If, however, both effects tend to reduce work incentives or if the two effects have opposite tendencies and the income effect does not predominate, then the resultant effect will be a disincentive to work.

The empirical evidence on this score is not extensive but such evidence as does exist suggests that positive tax rates on the earnings of the very poor which are large enough to significantly reduce the cost of an income maintenance plan are also large enough—when combined with the physical, social and psychological barriers to work endemic to the very poor—to produce disincentives to work.[7] The validity of this conclusion for any particular plan depends, of course, upon the specific elements of the plan, particularly the level of the income guarantee and the economic alternatives of the target population.

The nonproblem of incentives

The Nixon plan seeks to meet the problem of incentives by abolishing it as a problem. First, it obviates the cost problem by combining a 50 per cent positive marginal tax rate on earnings (possibly 67 per cent through the state option provision) with a very low income guarantee. Second, it requires as a condition of aid under the plan that all poor people deemed capable of employment, including mothers of school-age children, register for and accept "suitable" employment or job training. Both of these provisions effectively

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[6]Comment, "A Model Negative Income Tax Statute," *Yale Law Journal*, 78, (December 1968) p. 269-275.

[7]See Christopher Green, *Negative Taxes and the Poverty Problem* (Washington: Brookings Institution, 1967), pp. 117-22. These disincentives might extend to working families whose best efforts merely bring them slightly above the income guarantee level unless, of course, the income guarantee level were set at a very low level.

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make (in many states) the real possibility of starvation, rather than calculations of economic utility, the guarantor of work effects.[8]

Like the present ADC system, the Nixon plan "solves" one problem by creating another. Just as the "man in the house" rule has had tragic consequences for family cohesion among the welfare population, so the coupling of an extremely low income guarantee with a mandatory work requirement may well, if the latter is enforced, erode whatever dignity and independence have escaped the ravages of the ADC system.

Clearly, the work requirement provision was inserted in the Nixon plan for the same reason that similar provisions have been included in past welfare legislation—to palliate criticisms of "giveaway" programs and to make the legislation politically acceptable. We recognize that similar requirements in existing welfare programs have sometimes not been enforced in "liberal" jurisdictions, and that the framers of the Nixon plan may well anticipate that its work requirement will generally remain unenforced.

Such an expectation, even if entertained, is probably unrealistic. In a period of spiralling welfare costs, hard-pressed taxpayers are likely to exert political pressures for stricter enforcement of requirements for receiving assistance. If such pressures prevail, even the most well-intentioned, Solomonic bureaucrat will be confronted with the awesome responsibility of deciding what employment or training is "suitable" for a poor man or woman.[9] Must a man move to another city to find employment in order to qualify under the plan? Must he stay on a job that is not to his liking or which offers no opportunity for advancement? Will people unable to meet the work requirement boycott the plan in favor of illicit sources of income? These and myriad other questions are raised by the work requirement of the Nixon plan, a work requirement that not only panders to the false stereotype that the welfare rolls are burdened with large numbers of individuals who are physically, mentally and emotionally able, but unwilling, to work, but also ignores the limited job opportunities that exist for the hard-core poor and their unique disabilities in adapting to "the world of work." In short, by effectively converting the concept of work incentive into one of work coercion, the Nixon plan opens up a veritable Pandora's box of problems with hidden costs and ethical dilemmas.

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[8]Indeed, in view of the low guarantee level and the work requirement, it is likely that a confiscatory marginal tax rate, at least at the lower levels of earned income, would not significantly reduce this most powerful work incentive.

[9]The allegations that Mayor Lindsay was manipulating the enforcement of welfare regulations for political purposes, whatever their truth, suggest that grave risks are inherent in permitting public officials to exercise discretion in an area at once so sensitive to public pressures and so critical to the dignity of the individuals involved. *New York Times*, Sept. 19, 1969, p. 1 and Sept. 20, 1969, p. 1. Some of the unique problems deriving from the enormous discretion granted to low-level social workers in the public assistance area are set forth in the recent report of the President's Commission on Income Maintenance Programs, Ben Heiman, chairman (preliminary copy, November 12, 1969), pp. 305-309.

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As we have seen, virtually all income maintenance plans which have been advanced have several characteristics in common. First, they are single plan programs; all members of the target population, however diverse their attributes and needs, are subject to the same plan.[10] Second, while most, including the Nixon plan, are "negative" in the aggregate (i.e., they result in a net transfer of income to the poor), all are "positive" at the margin (i.e., as the recipient earns money, a portion of each dollar so earned[11] is "taxed" at a positive rate and returned to the government in the form of reduced benefits to the individual.) As we have also seen, such plans, including the Nixon plan, suffer from their inability to produce in a single plan a program which, at a politically acceptable cost, will provide both a reasonable income level for those unable to work or to find work, and realistic and effective work incentives for those able to find work without compromising their dignity or independence. To repeat, this inability ensues because positive marginal tax rates on earnings sufficiently low to encourage work also are sufficiently low to make the cost of the program unacceptable. And we have seen that the Nixon plan's efforts to escape this contradiction are likely to prove futile and counter-productive.

Yet the fact is that given that the opportunities for poor men may differ, and that the optimal plan for a particular individual will depend upon his particular set of opportunities, a multiple plan assistance program—a program that enables different individuals to enroll in different plans—will clearly be optimal in any real-life situation. No one would suggest that there should be an individual plan for each poor or potentially poor man within the society, but the opposite extreme of a single plan for all individuals is also unsatisfactory.

Accordingly, we propose an alternative structure, using for simplicity only two plans. The first plan, called Plan I, would be directed primarily at those who cannot work or find suitable employment. It would consist of a fixed, sizeable income guarantee with a substantial positive (though not confiscatory) marginal tax on earnings.[12] The people on this program would be primarily the handicapped, the aged, and any others, such as those in economically depressed areas, for whom steady employment is not a significant possibility. Persons enrolled in job training programs might be assisted under this plan during the period of their training.

Plan II would be directed toward those who can find satisfactory work. It would consist of either no stipend or a relatively small one, and a progressive *negative* marginal tax on earnings (i.e., a bonus paid by the government on the basis of earnings). In view of the existence of hourly wage differentials, the bonus would be paid on

[10]A rigorous elaboration of a multiple plan program is given in Richard Zeckhauser, "Optimal Mechanisms for Income Transfers," RAND Corporation Paper P-3878 (June, 1968).

[11]In some plans, as in the Nixon plan, there is a base of income which may be earned without causing a reduction of benefits.

[12]Plan I could be the Nixon plan, except that the income guarantee level would have to be considerably higher in order to support a dignified existence, and there would be no work requirements for the reasons discussed above.

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the basis of hourly wage rates rather than total annual earnings, thus giving the "high" wage poor the same incentive to work full time as the low wage poor. Moreover, given the preferences of our society regarding income distribution among the poor, the size of the bonus rate would be graduated progressively; the lower the hourly wage rate, the higher the bonus rate. Thus, a possible Plan II would require that the government pay a bonus of $1 per hour to a person earning $1 per hour, a bonus of $.75 per hour to a person earning $1.50 per hour, a bonus of $.50 per hour to a person earning $2 per hour, etc. Such a plan would, in effect, make up 50 per cent of the differential between the actual wage rate and $3 per hour. Obviously, numerous variants would be possible.

Factors other than the wage rate might come into play as well. The ethical bases that underlie any redistributional program would seem to imply that the size of the bonus should in some way be related to the size of the recipient's family. The figures suggested above seem roughly appropriate for the family of four example. If the recipient has any nonwage income, that factor too should be taken into account. We would probably like to establish a ceiling income above which no wage bonuses would be paid. This same ceiling might give the point at which individuals receiving assistance would enter the regular income tax brackets. For a family of four, this ceiling might be in the neighborhood of $5,500. With such a provision, a recipient with no outside income whose base wage was $2.50 an hour would receive the wage bonus of $.25 for the first 2000 hours that he worked.

It is readily apparent that Plan II provides a potent work incentive, particularly when compared with Plan I, a plan such as the Nixon plan. Because of this incentive, and assuming as we do that the work incentive elements (i.e., the work requirement and the right to retain some marginal earnings) of the Nixon plan will be ineffective, Plan II results in higher total income to the worker at less cost to the government. Consider, for example, a man with a family of four earning $1.25 per hour. Under the Nixon plan, he would receive $1600 from the government and could earn $720 (that is, work for 576 hours) without reduction of benefits. Beyond this point, he would in effect be working for only $.625 per hour and probably would not work at all, at least at licit activities. Under Plan II, however, he would receive $2.125 per hour and would choose to work, say, 1800 hours. The Nixon plan would produce 576 hours of work for a total income of $2320 at a cost to the government of $1600, while Plan II would produce 1800 hours of work for a total income of $3825 ($2250 earnings + $1575 bonus) at a cost to the government of $1575. Here, Plan II dominates the Nixon plan in that it generates greater earnings at less cost to the government.

The advantage of Plan II over Plan I will depend, of course, on the individual's wage rate and the number of hours he would choose to work under each plan.[13] In no case will he choose Plan II when,

[13]If, as appears quite likely, the income guarantee level in the Nixon plan is raised in the future, the relative attractiveness of Plan II will increase.

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for the number of hours he would work under Plan II, he would receive more total income with Plan I. The comparison of Plans I and II for the same number of hours worked is not relevant, for the very purpose of Plan II is to provide a greater work incentive. For more than 1307 hours worked, Plan II yields more total income than Plan I regardless of wage rate. Table I presents some figures that might be used as a basis of comparison. The table makes the generous assumption that an individual works 800 hours under Plan I.

TABLE 1: *Total Income to the Individual and Cost to the Government (in dollars).*

PLAN I 800 HOURS			PLAN II							
				1600 HOURS		1800 HOURS		2000 HOURS		
WAGE RATE	NET INCOME	COST	NET EFFECTIVE WAGE	NET INCOME	COST	NET INCOME	COST	NET INCOME	COST
1.25	2460	1460	2.125	3400	1400	3825	1575	4250	1750
1.75	2660	1260	2.375	3800	1000	4275	1125	4750	1250
2.25	2860	1060	2.625	4200	600	4725	675	5250	750

A plan such as Plan II that uses negative marginal tax rates can be shown, for any set of preferences of a particular worker, to dominate any plan, such as the Nixon plan, that employs positive marginal tax rates. Thus, Plan II may cost less in aggregate, be preferred by all members of the target population operating under it, and provide a stronger work incentive than Plan I. Table II indicates the benefits to the recipient and the cost savings to the government if Plan II rather than Plan I is chosen.

For example, if an individual who earns \$1.75 per hour works 800 hours under Plan I, he will receive \$1400 on which he will pay a tax of \$(1400 - 720) × 50 per cent = \$340. His net income will be the base of \$1600 + \$1400 - \$340 = \$2660. The cost to the government will be \$1600 - \$340 = \$1260. Assume that he works 1800 hours under Plan II. His income will be \$3150 and he will receive a bonus from the government of \$.625 per hour for an additional \$1125. The individual receives an additional \$1615 and the government saves \$135, because Plan II is chosen.

To estimate the aggregate cost of our multiple plan program is, at best, a hazardous venture. The implementation of the program would activate a number of variables, some of whose values cannot be predicted with great accuracy. The major imponderable, of course, is the magnitude of the gain our program offers over the Nixon plan with regard to the critical matter of work incentives.

Table II indicates that the cost to the government for an individual under Plan II rather than Plan I will be higher only in the case of an individual who receives a relatively low wage and who would have worked a substantial number of hours under Plan I. It seems to us unlikely that there are many low-wage individuals who would work a substantial number of hours if they faced a 50 per cent marginal tax rate. This means that on average, the cost to the government of

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a recipient working under Plan II will be somewhat less than if he had worked instead under Plan I. This in turn implies that the aggregate cost of our proposed program will not exceed the cost of a program which would include only Plan I. Any increase in the Plan I guarantee level accompanied by an equivalent bonus increase for Plan II would magnify any work incentive or cost advantages of our program.

TABLE 2: *Net Effect of Plan II over Plan I*[1]

WAGE RATE		HOURS WORKED UNDER PLAN I		
		500	800	1200
$1.25	Additional Income to Recipient	1600	1365	1115
	Savings in Cost to Government[2]	25	—115	—365
$1.75	Additional Income to Recipient	1877.50	1615	1265
	Savings in Cost to Government	397.50	135	—215
$2.25	Additional Income to Recipient	2202.50	1865	1415
	Savings in Cost to Government	722.50	385	—65

[1] Based on the assumption that the individual works 1800 hours under Plan II.
[2] Negative values for these savings indicate that Plan II costs the government more than Plan I in the particular instance.

The cost estimates of the President's Commission on Income Maintenance Programs give some indication of the type of aggregate net cost we might expect for our program.[14] For 1971, it is estimated that a 50 per cent positive tax rate program with a $2,000 guarantee level would cover 7.8 million households at a net cost of $3.5 billion. If the guarantee level were raised to $3,200, 16.7 million households would receive payments and the net cost would increase to $14.0 billion. The costs of multiple plan programs with the bonus for Plan II, proportionately modified in response to changes in the guarantee level in Plan I, should roughly parallel these figures. In assessing any cost estimates of this nature, it is important to realize that there is substantial imprecision in the data and in the projection of future trends in population and income growth.[15]

It is natural to ask what would happen to the structure of wages if Plan II were adopted by significant numbers of individuals. One

[14] Their estimates are net of offsetting savings in existing programs to all levels of government.

[15] These cost estimates are highly sensitive to the year for which they are estimated. Although population grows, thus increasing payments over time, cost reductions due to growth in income are expected to substantially outweigh this factor. Estimates for the net additional cost of the Nixon plan made when it was first introduced ranged around $4 billion. The Commission estimate seems somewhat low in comparison. Tobin, Pechman and Mieszkowski, using 1962 data, estimated a $20 billion net cost for a program with a 50 per cent positive tax rate and a $2600 guarantee level. See "Is a Negative Income Tax Practical," *Yale Law Journal*, 77 (November 1967), p. 23.

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might fear that a government bonus on wages would tend to lower the market wage paid by employers.[16] This would mean that the benefit from the bonus would go partly to employers, not entirely to workers. This fear is unfounded. At the bottom of the wage scale, minimum wage legislation prevents any fall in wages. Above the minimum, other factors militate against reductions in wages. Wage differentials, we remember, are rental payments on skills in short supply. Given that the minimum wage is set, the continuing demand for skilled and semiskilled workers will simply maintain existing differentials and hence existing wage levels. Where nonmarket forces such as unions restrict the supply of particular skills, we should expect these forces to continue to operate regardless of which plan is in effect.

There is one circumstance under which wages paid by employers might be reduced. If previously unemployed workers equip themselves to compete for positions which now pay above the minimum wage, the skills for which wage differentials are paid will become less scarce, and the wage for these skills may fall somewhat toward the minimum wage. It seems unlikely that such competition could occur on a large scale. If it did, we might, on balance, regard such a development with favor.[17]

The one disadvantage of Plan II is that it reduces somewhat a worker's incentive to increase his wage rate, because he receives only 50 per cent (in the formulation of Plan II set forth above) of any wage increase.[18] This might discourage efforts to increase his skill level, to take on a more onerous job, or to migrate to a higher wage firm or geographical area. This drawback is also inherent in the Nixon plan.

It is important to consider the administrative complexities that would accompany the two plans. A plan such as Plan I will tend to encourage recipients to under-report earnings whereas a plan such as Plan II will tend to encourage him to overreport hours worked and under-report the wage rate. Which plan would create the greatest difficulties in administration is an empirical question; suffice it to say that neither plan is obviously preferable in this regard.

Let us reiterate: under our proposed multiple plan program, a plan such as Plan II, which employs negative marginal tax rates, is not designed to be used by all members of the target population. As we have seen, a scheme such as Plan I (or the Nixon plan with a higher income guarantee and no work requirement) is necessary for the

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[16]Even in the theoretically most unfavorable circumstances, the reduction could never be by more than the bonus.

[17]To increase employment opportunities, minimum wage requirements might be relaxed under the multiple plan program for individuals who operate under Plan II and who would receive under Plan II net hourly earnings (wages plus bonus) substantially in excess of the present minimum wage. If such an innovation were to be instituted, some of our conclusions on the structure of wages would be altered, but the relative attractiveness of the multiple plan program would be undiminished.

[18]The fact that his income is increased may provide an opportunity for him to get training so as to increase his skill level. Alternatively, it may provide him sufficient income to reduce his incentive to increase his skills and hence his wage.

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support of those who cannot work or who are only marginally employable. Our proposed solution is to permit all members of the target population to choose whether to enroll in Plan I or Plan II, with a procedure to permit a switch from one plan to another if their status changes.

Our proposed program has no work requirement. Although this approach entails a risk that some persons capable—from all standpoints—of working will select Plan I, it is likely that such persons will be relatively few in number, particularly so long as the guarantee level remains far below the poverty level. Accordingly, we feel that it would be fruitless, costly and inefficient to make an attempt—probably in vain—to thwart these persons. The element of free choice that pervades our proposal offers, we believe, a clear gain for the dignity and independence of the poor.

Only a multiple plan program can provide adequate income to those who cannot work and adequate work incentives to those who can. Any enlightened income maintenance policy must, at a minimum, accomplish these ends.

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CURRENT READING

What's in a Smile?

An old Tin-Pan Alley song has it: "There are smiles that make you happy, there are smiles that make you blue . . ."

Ray Birdwhistell, the University of Pennsylvania's famed inventor of *Kinesics*—the study of non-verbal communication patterns—has recently been studying the American smile. His conclusions, which are reported in *Social Science Information* (Volume 7, Number 6), interestingly confirm the popular tune. Professor Birdwhistell writes:

> Early in my research on human body motion, influenced by Darwin's *Expression of the emotions in man and animals*, and by my own preoccupation with human universals, I attempted to study the human "smile". . . . Smiling, it seemed to me, provided the perfect example of a piece of behavior which in every culture expressed pleasure on the part of the actor. Almost as soon as I started to study "smiling" I found myself in a mass of contradictions. From the outset, the *signal* value of the smile proved debatable. Even the most preliminary procedures provided data which was difficult to rationalize. For example, not only did I find that a number of my subjects "smiled" when they were subjected to what seemed to be a positive environment but some "smiled" in an aversive one. My psychiatric friends provided me with a variety of psychological examinations for this apparent contradiction, but I was determined to develop social data without recourse to such explanations. Yet, inevitably, these ideas shaped my early research.
>
> As I enlarged my observational survey, it became evident that there was little constancy to the phenomenon. It was almost immediately clear that the frequency of smiling varied from one part of the United States to another. Middle class individuals from Ohio, Indiana and Illinois, as counted on the street, smiled more often than did New Englanders with a comparable background from Massachusetts, New Hampshire and Maine. Moreover, these latter subjects smiled with a higher frequency than did western New Yorkers. At the other extreme, the highest incidence of smiling was observed in Atlanta, Louisville, Memphis, and Nashville. Closer study indicated that even within Georgia, Ken-

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tucky and Tennessee there were systematic differences in the frequency of smiling: subjects from tidewater Georgia, the Bluegrass of Kentucky and western Tennessee were much more likely to be observed smiling than were their peers from the Appalachian sections of their states. If I could have maintained my faith in the smile as a "natural" gesture of expression, an automatic neuro-muscular reaction to an underlying and "pleasurable" endocrine or neural state, I would have had a sure measure to establish isoglosses of pleasure with which to map the United States. Unfortunately, data continued to come in.

Almost as soon as I attempted to isolate contexts of propriety for smiling, data emerged which made it clear that while it was perfectly appropriate (as measured by social response) for a young female to smile among strangers on Peachtree Street in Atlanta, Georgia, such behavior would be highly inappropriate on Main Street in Buffalo, New York. In one part of the country, an unsmiling individual might be queried as to whether he was "angry about something," while in another, the smiling individual might be asked "What's funny?". In one area, an apology required an accompanying smile; in another, the smile elicited the response that the apology was not "serious." That is to say, the presence of a smile in particular contexts indicated "pleasure," in another "humor," in others "ridicule" and, in still others, "friendliness" or "good manners." Smiles have been seen to indicate "doubt" and "acceptance," "equality" and "superordination" or "subordination." It occurs in situations where insult is intended and in others as a denial of insult. Except with the most elastic conception of "pleasure," charts of smile frequency clearly were not going to be very reliable as maps for the location of happy Americans. . . .

The term "smiling" as used by American informants covers an extensive range of complex kinemorphic constructions which are reducible to their structural components. The positioning of the head, variation in the circum orbital region, the forms of the face and, even, general body position can be and usually are involved in the performance and reception of what the informant reports as "smiling." I have learned that "he smiled," as a statement on the part of an American informant, is as non-specific and uninformative as the statement on the part of the same informant that "he raised his voice."

Supply, Demand, and the College Graduate

Colleges and universities have long been gateways to social mobility and affluence. Who and how many are benefitting from our institutions of higher education, and what is their status on the job market? Recent papers by Geoffrey H. Moore, Commissioner of Labor Statistics, and Conrad Taeuber, Associate Director of the Census Bureau, offered some interesting statistics on these questions.

¶The number of students enrolled in college has nearly doubled since 1960. Then, about 3.6 million went to college: today, the figure is almost 7 million. In 1950, 2.3 million were enrolled; in 1930, fewer than 1 million. About two-fifths of the 1960-70 increase in student enrollments can be attributed to an increase in the number of per-

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sons in the appropriate age group. Three-fifths of the increase is due to an increase in the proportion of young people who go to college.

¶From 1964 to 1968, the number of Negroes enrolled in colleges and universities rose from 234,000 to 434,000—or by 85 per cent. This rate of increase was more than twice that of white students.

¶In 1964, about 430,000 Negro college graduates were employed in professional and managerial occupations. By 1968, the figure had risen to about 560,000, which represents an increase of about 30 per cent. By 1968, four out of every five Negro college graduates in the labor force were employed in professional and managerial occupations. The movement of Negro graduates into such occupations has been so rapid in recent years that the gap between the proportion of Negro graduates and white graduates in the professional and administrative jobs has nearly been closed.

¶Income statistics suggest something of the personal economic value of a college degree today. In 1968, the median annual income of heads of households who completed four or more years of college was $12,288; for those with one to three years of college, it was $9,485; and for high school graduates, $8,583.

¶After a long period during which demand for college graduates exceeded the supply, it appears likely that in the 1970's there will emerge a rough balance between supply of and demand for college-trained manpower. The exact relation of suply to demand will, of course, vary from occupation to occupation. In elementary and secondary school teaching, in which demand for trained teachers has traditionally exceeded supply, it is anticipated that 2.4 million job openings will exist from 1968 to 1980. But if recent entry patterns in the occupation continue, the new supply of college-trained teachers during the same period could reach 4.2 million, thereby far exceeding the demand. In health occupations, by contrast, manpower needs are expected to be greater than the projected supply. The same will probably be true of engineers and scientists (although it is anticipated that mathematicians and life scientists may be in excess supply if students continue to elect these fields in the same proportions as in the past).

There is reason to expect that this changing relationship between demand and supply will have a particularly adverse effect on the employment opportunities of college-trained women. Such women tend to prepare for and enter a rather limited range of occupations, a number of which (school teaching, for example) are expected to have a large manpower surplus. Unless the range of female occupations broadens, the consequences of the emerging demand-supply equilibrium is going to be an increase in female unemployment or underemployment. The situation of women may be further aggravated by changing patterns of marriage and child-bearing. It is true that a larger proportion of women marry and that a larger proportion of married women have children. But women marry at younger ages and complete their childbearing within a shorter period of time. Today, a couple can look forward to about 16 years of life together after the youngest child has left home; in 1890, one of the

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parents of the average family had already died by the time the youngest child left home.

Nuclear Burial Grounds

The waste products of an industrial civilization, are spectacular and many—detergents which will not sink, plastics that will not burn or be "degraded." The most intractable of all are nuclear wastes. In *Foreign Affairs* for January 1970, Ritchie Calder set forth the problem.

> There is the problem of atomic waste disposal, which persists in the peaceful uses as well as in the making of nuclear explosives. Low energy wastes, carefully monitored, can be safely disposed of. Trash, irradiated metals and laboratory waste can be embedded in concrete and dumped in the ocean deeps—although this practice raises some misgivings. But high-level wastes, some with elements the radioactivity of which can persist for *hundreds of thousands* of years, present prodigious difficulties. There must be "burial grounds" (or euphemistically "farms"), the biggest of which is at Hanford, Washington. It encloses a stretch of the Columbia River in a tract covering 650 square miles, where no one is allowed to live or to trespass.
>
> There, in the twentieth century Giza, it has cost more, much more to bury live atoms than it cost to entomb the sun-god Kings of Egypt. The capital outlay runs into hundreds of millions of dollars and the maintenance of the U.S. sepulchres is over $6 million a year. (Add to that the buried waste of the U.S.S.R., Britain, Canada, France and China, and one can see what it costs to bury live atoms.) And they are very much alive. At Hanford they are kept in million-gallon carbon-steel tanks. Their radioactive vitality keeps the accompanying acids boiling like a witch's cauldron. A cooling system has to be maintained continuously. The vapors from the self-boiling tanks have to be condensed and "scrubbed" (radioactive atoms removed); otherwise a radioactive miasma would escape from the vents. The tanks will not endure as long as the pyramids and certainly not for the hundreds of thousands of years of the long-lived atoms. The acids and the atomic ferments erode the toughest metal, so the tanks have to be periodically decanted. Another method is to entomb them in disused salt mines. Another is to embed them in ceramics, lock them up in glass beads. Another is what is known as "hydraulic fraction": a hole is drilled into a shale formation (below the subsoil water); liquid is piped down under pressure and causes the shale to split laterally. Hence the atoms in liquid cement can be injected under enormous pressure and spread into the fissures to set like a radioactive sandwich. This overcomes the worry of earthquakes since the materials will remain secure even in faulting.
>
> This accumulating waste from fission plants will persist until the promise, still far from fulfilled, of peaceful thermonuclear power comes about. With the multiplication of power reactors, the wastes will increase. It is calculated that by the year 2000, the number of six-ton nuclear "hearses" in transit to "burial grounds" at any given time on the highways of the United States will be well over 3,000 and the amount of radioactive products will be about a billion curies, which is a mighty lot of curies to be roaming around a populated country. . . .

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